Hospitality PROPERTY FUND

Integrated annual report 2018
and AGM notice

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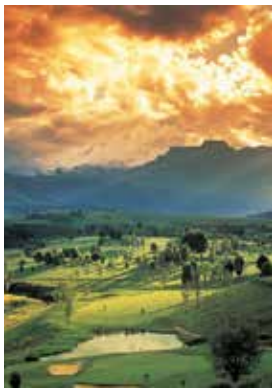

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Integrated governance

Hospitality PROPERTY FUND

www.hpf.co.za

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Using this report

The following icons are used within our report to reduce repetition and increase connectivity:

Further information available within this report

Further information available online: www.hpf.co.za

Our strategic objectives are:

1 Sustain

2 Optimise

3 Grow

REPORTING PERIOD DEFINITIONS USED IN THIS REPORT

For the purpose of comparison and to mitigate against the effect of seasonality, management accounts have been used to create comparative periods where appropriate. The table below illustrates the comparative periods reported and commented on:

Report	Reference	Description	Rationale
Financial results	*Financial statutory results*	Actual 12-month performance for the period from 1 April 2017 to 31 March 2018, compared to a nine-month period from 1 July 2016 to 31 March 2017.	Year-end changed from 30 June to 31 March in the prior reporting period.
Hotel performance results	*Like-for-like comparison*	Comparison between the 12-month results from 1 April 2017 to 31 March 2018 and 12-month results from 1 April 2016 to 31 March 2017.	The following adjustments have been made to allow for a like-for-like comparison of performance: – Acquisitions of 29 hotel properties in the current year and 10 hotel properties in the prior year from Tsogo Sun (effective 1 July 2017 and 1 September 2016, respectively) have been included for the full 12-month period in the current and prior years. – Prior year disposal of the Inn on the Square (20 November 2016) has been excluded.

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements that reflect the company's beliefs and expectations and involve known and unknown factors that could cause the actual results, performance or achievements of the group to be materially different from the expectations expressed or implied. Hospitality undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These have not been reviewed or reported on by the Group's auditors.
For a detailed understanding of the risk implicit in such forward-looking statements, refer to the inside back cover of this report.

About this report

Fund at a glance

Hospitality is the only specialised Real Estate Investment Trust ('REIT') on the JSE, investing in the hospitality industry. The purpose of the Fund is to invest in quality properties in the South African hospitality industry. With a portfolio of 53 hotel properties valued at nearly R13 billion, our properties are well diversified by location and grade, and our long-term relationships with our tenants position us to deliver value to our shareholders and other key stakeholders.

Our hotel properties are primarily located in the metropolitan areas of Johannesburg and Cape Town with a diverse spread throughout the rest of South Africa and a well-distributed offering in the economy segment through the SUN1 brand of hotels. The Fund earned more than R800 million in rent for the 2018 financial year from these hotels with a substantial portion of this coming from the large midscale, upscale and luxury hotels that cater for both domestic and international business travellers, association business, local government and international tour groups and leisure travellers.

Reporting philosophy and target audience

Integrated thinking is a key component of how we manage our business and develop our internal strategy development and reporting practices. At Hospitality, we define value as delivering sustainable returns to our shareholders, through distributions and capital appreciation, while positively contributing to our employees, business partners, and the economy. Our strategy has been developed to ensure that we manage the resources and relationships needed to create value over time. A review of our interaction with the key resources and relationships impacting value in our business model can be found on page 8.

This report is directed at our target audience, which can be defined as all current and future shareholders who have an interest in our ability to create and sustain value, including the investor community, analysts, employees, partners, funders and regulators.

In this report we present our target audience with an integrated and transparent overview of our strategy, business model and performance. We present a compelling investment case and value proposition and focus on concise business reporting.

Hospitality has adopted King IV™ (copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved) and have applied such governance practices that has resulted in the achievement of the principles of King IV™, being an ethical culture, good performance, effective control and legitimacy.

Reporting principle and frameworks

The financial and other information has been prepared in accordance with regulatory requirements, namely International Financial Reporting Standards ('IFRS'), the Companies Act, the JSE Listings Requirements, King IV™, as well as the voluntary guidelines of the Integrated Reporting Council's <IR> Reporting Framework as applicable. We believe that these frameworks add objectivity to the report and, as far as possible, we have demonstrated the connectivity and integration of these frameworks.

Scope and boundary

This report covers the material risks and opportunities that specifically relate to the Fund. We have considered all of Hospitality's direct and indirect risks and opportunities but have excluded the risks and opportunities that relate to the underlying hotel operations, unless these risks and opportunities are believed to be material to Hospitality. We have explained our process for determining materiality on page 43.

Hospitality believes that a risk or opportunity is material if it substantially affects the Company's ability to create and sustain value. In addition, we have included material subsequent events that occurred post-year-end.

During 2017, Hospitality changed its year end from June to March to align with that of its majority shareholder, Tsogo Sun. This report now covers a 12-month financial reporting period from 1 April 2017 to 31 March 2018 compared to a nine-month period for the year ended 31 March 2017 (from 1 July 2016 to 31 March 2017).

In addition, the Fund comprises 53 properties as at 31 March 2018 compared to the 24 properties as at 31 March 2017.

Glossary

Our glossary on page 63 is included as a reference to terms used throughout this report.

Assurance

The process of integrated reporting continues to evolve and at this stage, apart from obtaining external assurance as indicated below, Hospitality has not sought external verification of the non-financial information provided in this report.

Assured element	Assurance provided	Assurance provider
Annual financial statements	Audit	PricewaterhouseCoopers Inc.
B-BBEE level 1 group rating	Verification	Empowerdex
Property valuations	Valuation	Excellerate Real Estate Services Proprietary Limited t/a JHI

Board responsibility and approval statement

The Board, assisted by its audit and risk committee and other sub-committees, is ultimately responsible for overseeing the integrity of the integrated annual report ('IAR'). The audit and risk committee was mandated to oversee the reporting process. The Board has applied its collective mind to the preparation and presentation of the IAR. The directors confirm that they have collectively reviewed the output of the reporting process and the content of the IAR. The directors believe that this integrated annual report is transparent and addresses the material issues facing Hospitality. The report, therefore, is considered a fair presentation of the governance, strategy, performance and prospects of the group in accordance with the international framework.

We welcome any feedback on the report, which may be forwarded to **info@hpf.co.za.**

John Copelyn
Chair

Keith Randall
Chief Executive Officer ('CEO')

Reporting suite

Our IAR has been prepared to provide our target audience with a holistic and transparent view of our business model and strategy. More detailed information is also contained in our supplementary reporting suite as follows:

Consolidated annual financial statements for the year ended 31 March 2018, accessible on http://www.hpf.co.za/investors

Results presentations
A database of the presentation of our interim and year-end results to analysts and investors, which can be accessed via http://www.hpf.co.za/investors

Stock Exchange News Service ('SENS') of the JSE Limited
A database of all regulatory announcements published on the JSE Limited's SENS, which can be accessed via http://www.hpf.co.za/investors

Curricula vitae
of each of Hospitality's Board members via http://www.hpf.co.za/governance

Geographic locations in South Africa


Radisson Blu Gautrain


Southern Sun Bloemfontein


Southern Sun Newlands

LUXURY	UPSCALE	MIDSCALE	ECONOMY
WESTIN HOTELS & RESORTS	Southern Sun HOTELS	SUN SQUARE	SUN 1
AUTOGRAPH COLLECTION HOTELS	Holiday Inn	Garden Court	
	CROWNE PLAZA	stayeasy	
	Radisson BLU	PROTEA HOTELS. MARRIOTT	
	CHAMPAGNE SPORTS RESORT	BIRCHWOOD	
		arda KOPANONG HOTEL & CONFERENCE CENTRE	

Key highlights

Rental income increased to **R867 million** *(2017: R600 million)*

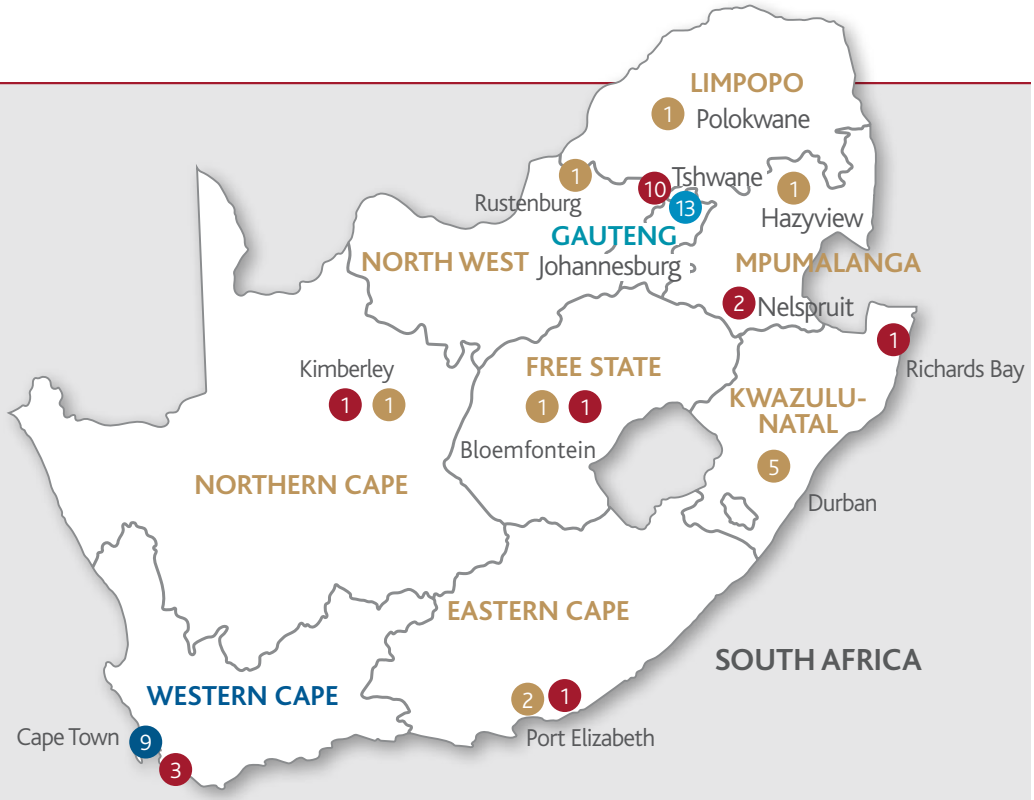
Average lease expiry of **14.9 years**

Increased number of properties from 15 hotels in 2016 to **53 hotels** in **2018**

Investment property value increased through acquisitions to **R13 billion** *(2017: R8 billion)*

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

WHERE WE OPERATE



9 properties in Western Cape portfolio

- Westin Cape Town
- Radisson Blu Waterfront
- Protea Victoria Junction
- Arabella Hotel and Spa
- StayEasy Century City
- Southern Sun Newlands
- Sunsquare Cape Town
- Southern Sun Cullinan*
- Southern Sun Waterfront*

13 properties in Gauteng portfolio

- Birchwood Hotel and Conference Centre
- Radisson Blu Gautrain
- Kopanong Hotel and Conference Centre
- Mount Grace Country House and Spa
- Crowne Plaza Rosebank
- Holiday Inn Sandton
- Garden Court Milpark
- Southern Sun Katherine Street*
- Garden Court Morningside*
- Garden Court Eastgate*
- Garden Court Hatfield*
- StayEasy Eastgate*
- Garden Court OR Tambo

12 properties in the rest of South Africa portfolio

- Garden Court South Beach
- Garden Court Polokwane
- Southern Sun Bloemfontein
- Garden Court Kimberley
- StayEasy Rustenburg
- Protea Edward
- Protea Marine
- Protea Hazyview
- Champagne Sports Resorts
- Garden Court Kings Beach*
- Garden Court Umhlanga*
- StayEasy Pietermaritzburg*

19 SUN1* hotels in our portfolio

- SUN1 Alberton
- SUN1 Benoni
- SUN1 Berea
- SUN1 Bloemfontein
- SUN1 Cape Town
- SUN1 Edenvale
- SUN1 Kimberley
- SUN1 Midrand
- SUN1 Milnerton
- SUN1 Nelspruit
- SUN1 OR Tambo
- SUN1 Parow
- SUN1 Port Elizabeth
- SUN1 Pretoria
- SUN1 Richards Bay
- SUN1 Southgate
- SUN1 Vereeniging
- SUN1 Witbank
- SUN1 Wynberg

** Effective 1 July 2017.*

Our top 10 properties by fair market value

at 31 March 2018

Westin Cape Town

Convention Square, Cape Town, Western Cape

Luxury

483 rooms

Valuation R1 945 million

Southern Sun Cullinan

Waterfront, Cape Town, Western Cape

Upscale

394 rooms

Valuation R1 150 million

Birchwood Executive Hotel and Conference Centre

Boksburg, Gauteng

Midscale

665 rooms

Valuation R683 million

Southern Sun Waterfront

Waterfront, Cape Town, Western Cape

Upscale

537 rooms

Valuation R1 253 million

Radisson Gautrain

Sandton, Gauteng

Upscale

220 rooms

Valuation R617 million

Radisson Hotel Waterfront

Waterfront, Cape Town, Western Cape
Upscale
177 rooms
Valuation R477 million

Garden Court South Beach

South Beach, Durban
Midscale
414 rooms
Valuation R612 million

Crowne Plaza Rosebank

Rosebank, Johannesburg, Gauteng
Upscale
318 rooms
Valuation R365 million

Garden Court OR Tambo

Kempton Park, Johannesburg, Gauteng
Midscale
253 rooms
Valuation R329 million

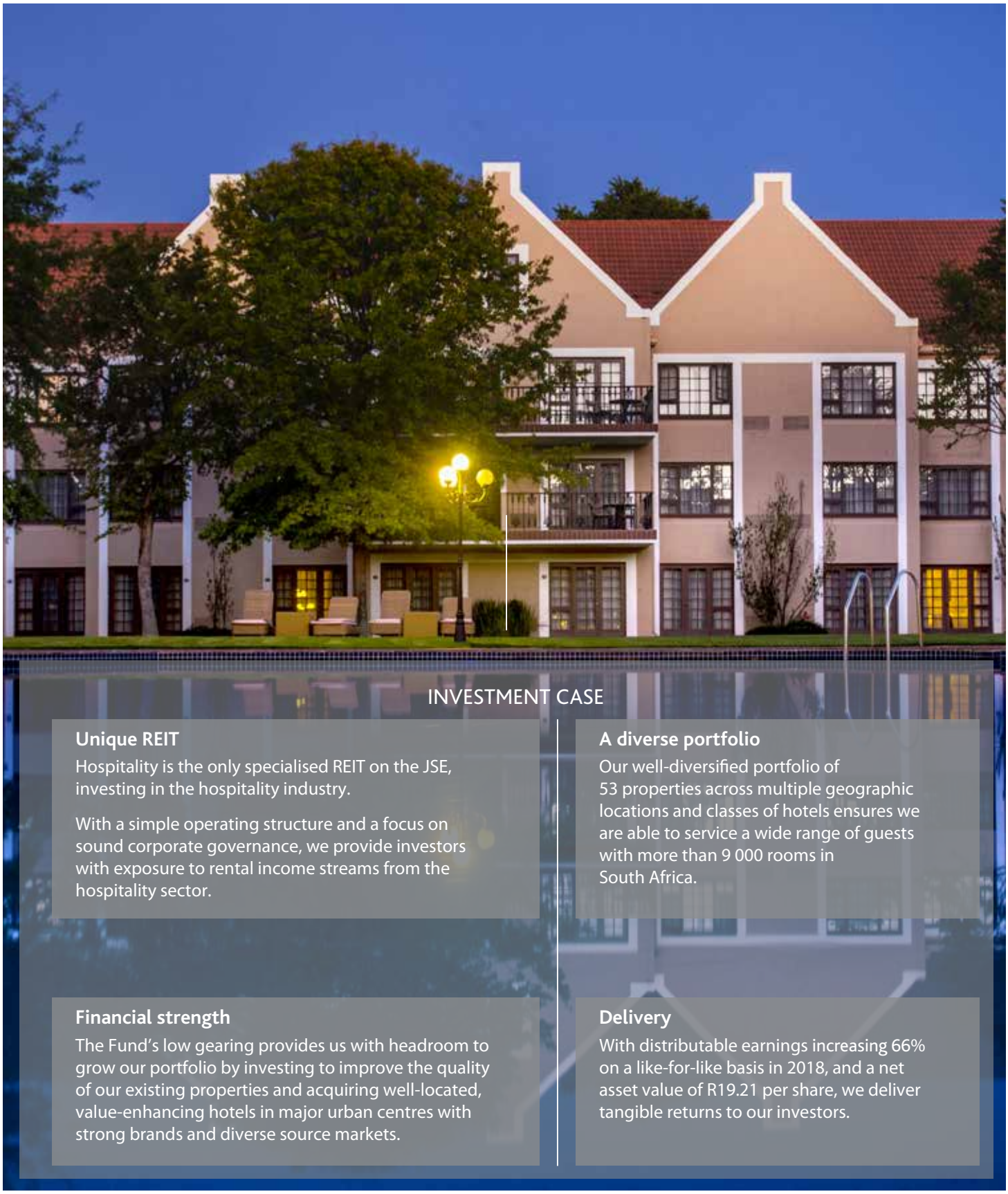
Protea Hotel Victoria Junction

Waterfront, Cape Town, Western Cape
Upscale
172 rooms
Valuation R325 million

For a detailed list of the properties that make up our portfolio, please refer to page 46 of our consolidated annual financial statements

Our investment case

WHY INVEST IN HOSPITALITY?



INVESTMENT CASE

Unique REIT

Hospitality is the only specialised REIT on the JSE, investing in the hospitality industry.

With a simple operating structure and a focus on sound corporate governance, we provide investors with exposure to rental income streams from the hospitality sector.

A diverse portfolio

Our well-diversified portfolio of 53 properties across multiple geographic locations and classes of hotels ensures we are able to service a wide range of guests with more than 9 000 rooms in South Africa.

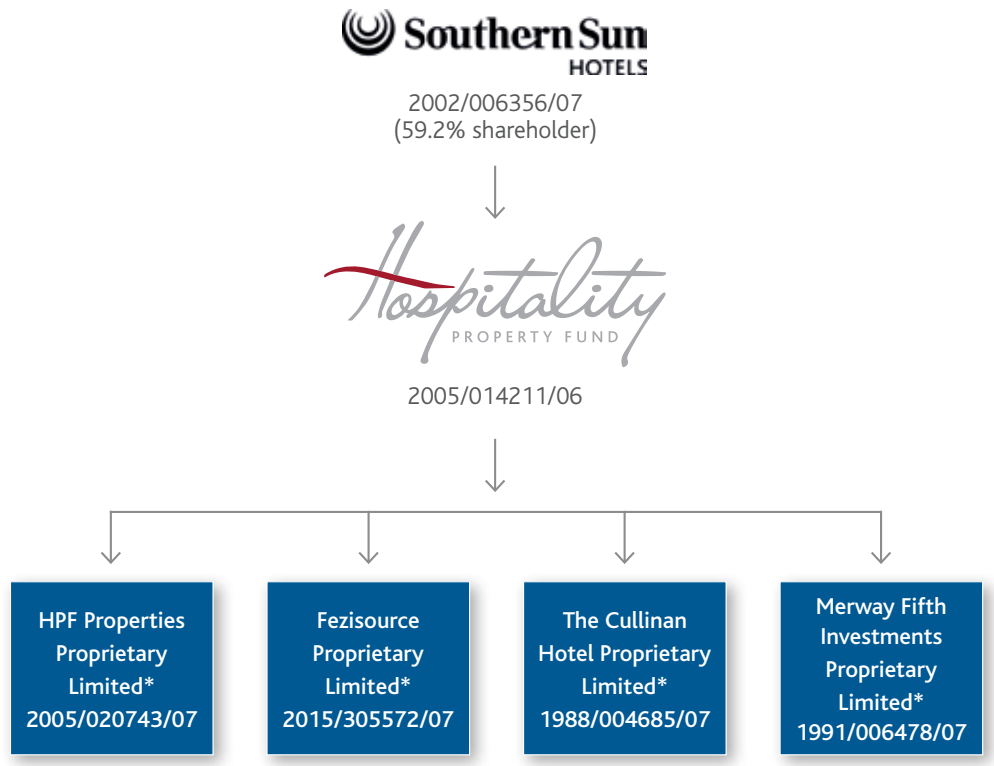
Financial strength

The Fund's low gearing provides us with headroom to grow our portfolio by investing to improve the quality of our existing properties and acquiring well-located, value-enhancing hotels in major urban centres with strong brands and diverse source markets.

Delivery

With distributable earnings increasing 66% on a like-for-like basis in 2018, and a net asset value of R19.21 per share, we deliver tangible returns to our investors.

Our group structure



** Wholly owned by Hospitality Property Fund Limited.*

IMPENDING TRANSACTION

Hospitality has entered into agreements with Tsogo Sun and its wholly owned subsidiaries to, subject to the fulfilment or waiver of certain conditions precedent, acquire seven casino precinct properties currently owned by the Tsogo group, in exchange for an aggregate purchase consideration of R23 billion. The purchase consideration was determined using the fair value of the casino portfolio, based on an agreed forward yield of 8.45%. The properties will be let in terms of a head lease, which will be a triple net lease and will be concluded for an initial period lasting until 31 March 2023, thereafter the head lease can be terminated by either party on 15 years' written notice.

Prior to the implementation of the proposed transaction, the Tsogo group will undertake an internal restructure that will result in the properties being housed in separate wholly owned subsidiaries of Tsogo. Hospitality will acquire the entire issued share capital of the subsidiaries in exchange for a cash payment, of which a portion will be utilised by the Tsogo subsidiaries to subscribe for 1.2 million shares in Hospitality at R12.50 per share.

This will result in Tsogo Sun's total shareholding in Hospitality increasing to approximately 1.5 billion Hospitality shares (approximately 87% of Hospitality's total issued share capital, net of treasury shares), which shareholding Tsogo Sun intends to distribute to its shareholders.

For Hospitality, the proposed transaction is classified as a category 1 related-party transaction and a reverse listing in terms of the JSE Listings Requirements, which will require approval by the requisite majority of Hospitality's shareholders (excluding related parties).

Further details on the transaction are available on Hospitality's website at http://www.hpf.co.za/investors.

Our business model

1. RESOURCES AND RELATIONSHIPS – THE SIX CAPITALS

FINANCIAL

We invest the financial capital received from our equity investors and debt funders.

- 15% loan-to-value ratio
- Rental income of R867 million
- R148 million invested in capital expenditure
- R1.9 billion in debt (54% hedged)

MANUFACTURED

Our diverse and carefully managed property portfolio enables us to generate income.

- 53 hotel and resort properties across multiple grades and geographic locations, valued at R12.6 billion
- Focused on metropolitan cities for scale

INTELLECTUAL

The depth of our experience in the hotel industry coupled with the strength of our hotel brands are critical to our ability to grow the business.

- Average experience of executive and senior management team is 12 years
- 15 international and domestic brands
- Ongoing investment in internal systems and processes to build data analytic capability

SOCIAL AND RELATIONSHIP

The strength of our relationships is key to our business, given the unique nature of our operations. Our symbiotic relationships with tenants and their hotel management companies create mutual benefit.

- Tenant retention rate – 100%
- Strong, mutually beneficial relationship with Tsogo Sun, the majority shareholder of the Fund

NATURAL

We rely on municipal utilities to deliver water and electricity to our operations and strive to be resource efficient and self-sufficient where possible.

- Installation of desalination plant and/or filtration plants at several of our Cape Town hotels
- Water and energy-saving initiatives implemented in all our hotels

HUMAN

To deliver on our strategy, we have a highly specialised and experienced team.

- 19 employees
- 80 years of collective experience in the hotel industry

2. CORE BUSINESS ACTIVITIES AND PROCESSES

The hotel portfolio of well-located and appropriately branded hotels caters to a wide range of domestic and international target markets including business travel, leisure and conferencing clients.

INVEST

Acquire properties in key locations with good visibility, accessibility and proximity to major hubs.

CAPITALISE

Maintain properties to appropriate brand standards and expand where opportunities meet our investment criteria.

LEASE

Lease properties to tenants associated with hotel brands across the classes of hotels.

ENHANCE

Enhance relationship with tenants and their hotel management companies to maximise rental income.

REVIEW

Strategic disposal of non-core assets.

SUPPORT PROCESSES

- Strategy implementation
- Capital allocation
- Product relevance
- Acquisitions and development
- Financial reporting and taxation
- Risk management
- Regulatory compliance
- Procurement management

3. OUTPUTS

Products and services delivered:

- Attractive, well-located, maintained and resilient properties
- Capital funding for hotel maintenance and improvements
- Hotel management skills and advice to enhance hotel performance
- REIT investment product

4. OUTCOMES

Our purpose is to invest in quality properties in the South African hospitality industry.

Our definition of value – to deliver sustainable returns to our shareholders, through distributions and capital appreciation, while positively contributing to our employees, business partners, and the economy.

We do this through our strategic objectives of **sustaining**, **optimising** and **growing value** through our strategic objectives and initiatives:

SUSTAIN

Financial strength and durability

An appropriate capital structure and distribution policy to ensure the business survives through the economic cycles

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets

OPTIMISE

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships

Business intelligence

Build and refine internal processes and systems to support portfolio management and decision-making

GROW

Organic growth

Grow our portfolio through organic means

Acquisitions

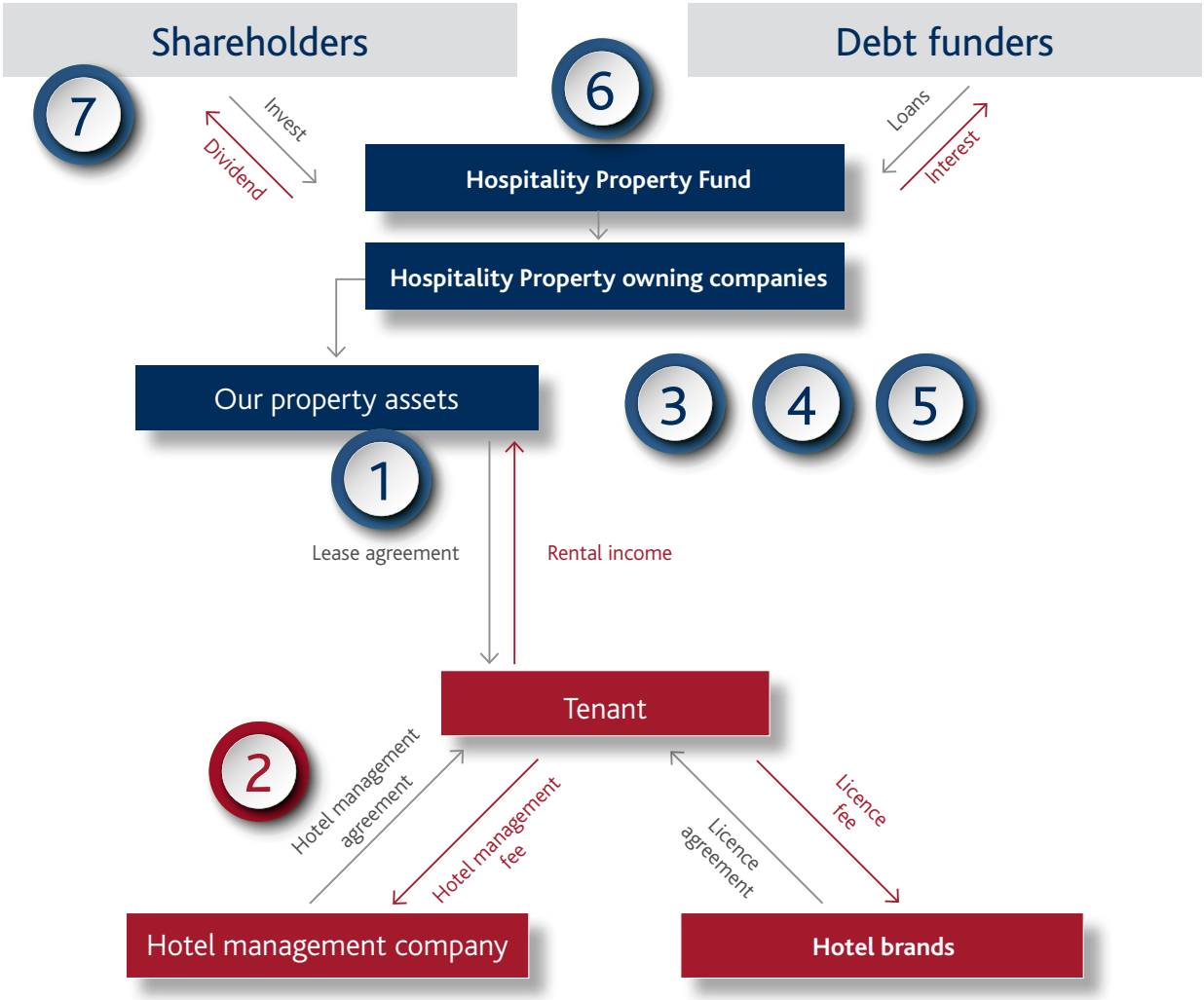
Continue to seek value-enhancing acquisitions, both through platform transactions and single asset acquisitions, that are well diversified both geographically and across brand segments

What we do

Like all REITs, we earn our income through rentals received from our tenants. The hospitality industry is characterised by rental income that is subject to seasonal variability and a high level of capital expenditure. The potential upside allows Hospitality to leverage the assets for higher potential returns.

Our portfolio caters to a wide-ranging domestic and international market and accommodates various segments including corporate, government, leisure, group conferencing and event business. Our properties are well diversified in terms of geographic location and class of hotel, thus mitigating the inherent risks associated within the cyclical nature of the hospitality industry.

As the property owner, we have a symbiotic relationship with our tenants and the hotel management companies, who are typically the representatives of the brands in our portfolio. Our focus is the asset management of our properties, a long-term strategy in acquiring, disposing of and investing in a relevant portfolio to protect and grow shareholder returns. This strategy is delivered through responsible capital expenditure, an evaluation of acquisition opportunities as well as the optimal source of funding for these investments. Our strategy is to have dynamic and symbiotic relationships with the hotel management companies who focus on managing the hotel operations to maximise the income-generating capability of each hotel.



REIT 101

Hospitality is a REIT in terms of the JSE Listings Requirements.

Below is a summary of what a REIT is and how being a REIT benefits investors.

What governs a REIT?

REITs in South Africa are governed by the JSE Listings Requirements and the Income Tax Act, 1962 ('IT Act'). The IT Act allows for REITs to deduct dividends paid to shareholders for income tax purposes, as long as the dividends meet the definition of a 'qualifying distribution' in terms of section 25BB.

What are the REIT compliance requirements in accordance with the JSE Listings Requirements?

A REIT must:

- Own at least R300 million in property
- Keep its debt below 60% of its gross asset value
- Earn at least 75% of its revenue from rental revenue[1]
- Distribute at least 75% of its total distributable profits as a dividend to the holders of its listed securities
- Have a committee to monitor risk

In order to retain its REIT status, every REIT must, on an ongoing basis, meet the relevant REIT criteria prescribed by the JSE. Each member of the board must sign an annual REIT compliance declaration, which is submitted to the JSE.

What are the benefits of a REIT to investors?

- Shareholders of a REIT do not pay securities transfer tax ('STT') on buying or selling of REIT shares
- South African investors will receive gross dividends from a South African REIT entity, without the deduction of withholding tax being levied against the dividend. Investors, will, however, have to pay tax on the dividends that they receive at their applicable marginal income tax rate when they include it in their taxable income
- Foreign shareholders of South African REITs will be levied a dividend withholding tax at 15% or the applicable double tax agreement rate could apply
- No capital gain tax liability arises in a REIT on the disposal of immovable property, a share in a REIT or a share in a controlled company

[1] *Group revenue that is derived from the owning or leasing of immovable property which is let or sub-let to tenants plus dividends received from another REIT where the investment in that REIT is not consolidated in the group accounts.*

What we do

1. We receive rental income from our tenants. The leases for all our hotel properties are fixed and variable ('F&V') leases. Typically, the fixed portion of the lease is 50% of the budgeted EBITDAR, escalating at CPI on a varying cycle e.g. two or three years. The varied portion is between 75% and 98% of actual EBITDAR less the fixed portion.
2. Our tenants have management agreements with reputable hotel management companies. We engage regularly with our tenants and their hotel management companies. We monitor the performance of our properties through monthly and quarterly reports provided by each hotel management company. In addition, we conduct peer group benchmarking, statistical analysis and reviews of economic trends to optimise the performance of the properties.
3. We maintain and improve our properties through regular and responsible capital investments. Feasibility studies are conducted to analyse the return potential under prevailing trading conditions. Board approval is required for all capital expenditure projects and once approved, all expansion and major refurbishment are outsourced to third-party development consultants.
4. We measure the consumption of electricity and water, review municipal rates, and energy and water-saving initiatives are encouraged and supported through capital replacement where appropriate.
5. We evaluate acquisition opportunities to deliver on our objective to sustainably grow our assets under management. We review and dispose of certain properties that do not match our investment portfolio in order to enhance the quality of our property portfolio. The proceeds of sales are applied to the reduction of debt or other growth opportunities.
6. We source funding to invest in organic and acquisitive growth opportunities, using debt and/or equity. We have restructured our debt portfolio, including our medium-term note programme, normal bank debt and a revolving credit facility, to diversify between lenders, simplify the security structure and reduce the average cost of net debt.
7. We pay dividends to our shareholders, complying with the JSE regulatory requirements for a REIT while taking cognisance of prevailing economic conditions and our cash requirements to maintain and improve the portfolio and manage debt levels.

Chair and CEO's report


Keith Randall, CEO
John Copelyn, Chair

"Hospitality has grown the portfolio to 53 hotel properties with a fair market value of R12.6 billion."

Overview

In 2018, we delivered distributable income growth of 66% on the comparable 12-month prior period.

Highlights of the period included:

- The acquisition of a further 29 properties from Tsogo Sun for R3.6 billion by way of shares and cash, effective 1 July 2017;
- The finalisation of additional sections and exclusive use areas in the Sandton Eye scheme together with the acquisition of real rights to extend the building at the Radisson Gautrain;
- The implementation of a R1.0 billion rights offer to support the funding of the above acquisitions; and
- The restructuring of our debt portfolio, reducing the net cost of debt and improving the flexibility of cash management and property provided as security for funding

Given the large-scale nature of these activities, distributable income per share is not comparable across the periods. However, on a like-for-like basis, over the full 12-month period ended March 2018 versus the prior 12-month period, Revpar decreased by 0.9% mainly due to the slow growth in the economy and the poor sentiment stemming from the Cape Town water crisis.

Our focus on growth continued after year end and, on Monday, 9 July 2018, we announced the proposed acquisition of seven casino precinct properties from Tsogo Sun. As a result, its holding in Hospitality will increase to 87%, with the intention to distribute this holding to its shareholders as soon as is practical. If approved by shareholders, this transaction will significantly change the financial outlook of the Fund. These properties are expected to ultimately produce two-thirds of the Fund's rental income, increase the asset base, diversifying the nature of earnings and reduce rental income volatility. Furthermore, with the increase in the free float of the Fund's shares and market capitalisation, this should lead to inclusion in the local property indices and improve the trading liquidity of the Fund's shares.

Delivering on our strategy

As a domestically located business, the state of the South African economy weighed on our performance. Growth remained low during the year, a trend that is expected to continue in the 2019 financial period. The ongoing water situation in the Western Cape further exacerbated the situation, resulting in lower rental income than expected.

While the macro-economic environment remained challenging, our clear vision and purpose continued to guide our decisions. Our vision is enabled through our three strategic objectives; that is to **sustain** and **optimise** our business and continue to **grow** our portfolio.

Our ongoing sustainability is a key focus and we achieve this by identifying risks and opportunities facing the business and developing mitigating measures to minimise the impact of the risks and strategies to take advantage of the opportunities that present themselves.

At Hospitality we see optimisation as a focus on the continuous improvement of the management of the portfolio of assets, the capital structure, cost control as well as developing better information and data management to support decision-making.

Growth will be achieved both organically and through acquisitions and we measure this primarily by the increase in distributable earnings and by growth in distributable earnings per share.

Sustain

To sustain our portfolio, we remain focused on improving our financial strength, while continuing to appropriately invest in our properties to ensure they remain relevant in the markets in which they operate.

Financial strength and durability

The rapid growth of the Fund's balance sheet through the acquisition of the additional Tsogo Sun hotel properties and the proposed acquisition of the casino precinct properties will be a significant boost to the sustainability of the Fund.

The hotel acquisitions were funded through the issue of shares in the Fund as well as cash, which was raised through a rights offer. The casino precinct acquisition will be settled in cash, raised with debt, and Tsogo Sun in turn subscribing for shares in Hospitality.

Should the casino precinct acquisition be approved, our loan-to-value ratio will grow from 15% to 28%; however, this is well below the statutory limits of a REIT and within limits of our debt covenants. We see this as an important consideration given the cyclical nature of the hotel industry. The increase in our net asset value will further protect against macro-economic shocks and provide us with the ability to take advantage of further acquisition opportunities.

The nature and location of the hotel properties provide diversification in terms of both geographical spread and branding across the accommodation classes, mitigating the trading risk inherent at each individual property and thus improving the Fund's viability and profitability.

Product relevance

The Fund has a good diversification of product across domestic and international brands, with experienced hotel managers who understand the markets they serve and manage the hotel properties on behalf of our tenants. Hotels are inherently reliant on their customers choosing to stay at our properties. We work closely with the tenants and hotel managers to plan product enhancements, improvements and ongoing maintenance to offer guests a quality stay.

Our assets are in very good condition and five-year capital expenditure plans are in place for each property outlining the priorities going forward. These plans are reviewed and updated annually.

This year, we invested R144 million in our capital expenditure programme (compared to R73 million over the prior nine-month period). Projects included refurbishments of the boardrooms and bar at the Westin, refurbishment of the lounge and bar at Arabella, refurbishment of the meeting rooms at Holiday Inn Sandton, refurbishment of the Value Stay rooms at the Birchwood Hotel, upgrade of a restaurant at the Birchwood Hotel and the development of a Spur restaurant at Garden Court South Beach.

Optimise

Given the macro-economic headwinds South Africa faces, our continual focus on improving how we manage and run our business remains critical. Our portfolio is deliberately diversified, ensuring we remain relevant to the populations and economies we serve. We continue to work with the specialist hotel managers who run these hotels, ensuring we optimise trading performance as well as the management and allocation of funds for capital improvement and maintenance.

Property portfolio management

While we are the asset owners, we have a symbiotic relationship with the hotel managers who run day-to-day operations of our hotels for the tenants and are the representatives of the brands in our portfolio. Ensuring we maintain an open and constructive relationship with these managers is key to the ultimate performance of each of the hotel assets.

The skills and experience of the hotel managers are a sought-after capability. Their understanding of the markets they serve is critical to the success of these operations. To optimise the returns on our assets, we work closely with them to track and understand trends and enhance the physical product to meet consumers' needs. Performance is measured and analysed to support decisions relating to capital allocation and the business strategies of the tenants and managers.

Business intelligence
Given the diversity of our operations, fit-for-purpose internal systems and processes are critical to support portfolio management and decision-making. To enhance our ability to efficiently manage our rapidly growing property portfolio, we have implemented new systems and business intelligence tools to monitor and benchmark property performance and support decision-making, including the successful implementation of SAP as well as commencing the development of our information database, which will retain and analyse all relevant hotel information once fully launched later this year.

Growth
The value of our business is determined by our ability to grow assets and earnings. We continue to seek value-enhancing acquisitions, both through platform transactions and key single asset acquisitions, that are well diversified geographically and by brand.

The Fund's property portfolio was independently valued at 31 March 2018 at a fair market value of R12.6 billion, up from R8.1 billion in the prior year, primarily as a result of the acquisition of the additional hotels from Tsogo Sun. With the proposed acquisition of the casino precinct properties, the net asset value of the portfolio is expected to grow to approximately R26 billion.

Organic growth
Room occupancy for the Fund's hotels declined by 0.9% to 63.0%. In the current economic climate, individual properties continue to experience monthly volatility in their trading. The Fund gains some protection from this due to the geographic spread of its properties and the varied accommodation classes and brands. With the changes that have taken place in the nature and location of the hotel properties in our portfolio, we are well placed to benefit should the macro-economic environment improve.

Inorganic growth
Inorganic growth is sought through the expansion of existing facilities and the acquisition of additional properties.

During the 2018 financial year, the following acquisitions were concluded:
- The second acquisition from Tsogo Sun of the Cullinan assets, being 10 mid to upscale hotels and the Merway Fifth assets, being 19 SUN1 budget hotels. This transaction was effective 1 July 2017
- The acquisition of a section in the Sandton Eye sectional title scheme together with the real right of extension, which was effective 22 August 2017

These acquisitions include hotel properties that are familiar to management and management remains confident that they will generate value to the Fund's shareholders.

The proposed acquisition of the seven casino precinct properties from Tsogo Sun will substantially boost our net asset value and provide a steady rental income stream escalating in line with inflation that will provide a core base income and reduce the overall volatility of the Fund's rental income.

Governance and ethics
Our governance framework supports value creation throughout our business and aligns to the King IV™ outcomes, being: an ethical culture, performance and value creation, adequate and effective controls, and trust, good reputation and legitimacy.

We conduct business in an ethical and responsible manner and are committed to building sound relationships based on trust, honesty and fairness with our employees, shareholders and business partners. We have a zero tolerance policy on any form of bribery or corruption.

As a business, we are unwavering in our commitment to adhering to all relevant legislation, regulations and codes; however, our commitment goes beyond compliance. We believe that governance can contribute to value creation through enhanced accountability, more effective risk management, transparent performance management and improved leadership and decision-making.

Our governance processes are regularly reviewed and aligned to reflect changes in the regulatory and business environment. To maintain the independence of the Board, Mr GA Nelson was appointed as lead independent non-executive director during the year after Ms L de Beer resigned as a director.

This year, we have aligned with the King IV™ principles and entrenched these within our operations. Furthermore, we continue to measure ourselves against the outcomes and identify ways to improve our approach to governance.

Appreciation
We wish to extend our appreciation to the Board, management and staff of Hospitality for their efforts over a year where we experienced further change.

The Board wishes to thank Ms L de Beer and Messrs MN von Aulock and Ross for their commitment and contribution during their tenures as members of the Board, and welcomes Mr Booysen to the Board. During the year, Mr DG Bowden served as acting chair on the audit and risk committee, for which we extend our appreciation.

After year end, Messrs MSI Gani and MH Ahmed were appointed as independent non-executive directors with effect from 8 May and 14 August respectively. Mr MSI Gani was also appointed as a member and the chair of the audit and risk committee, effective 8 May 2018. We welcome Messrs Gani and Ahmed and look forward to their contributions and insights.

As we look to the year ahead, it is clear that, despite challenging operating conditions, we remain well positioned to grow. Our strategy remains sound and the calibre and commitment of our people, coupled with the quality and diversity of our assets, will stand us in good stead to continue to deliver value to our stakeholders in the year ahead.

John Copelyn
Chair

Keith Randall
Chief Executive Officer

Financial Director's overview

KEY HIGHLIGHTS

Distribution per share of
120.29 cents
for the year ended
31 March 2018

Increased debt facility of
R2.4 billion,
increased DMTN
programme to
R5 billion,
low LTV of 15%

Property portfolio value
increased by
R4.5 billion
to **R12.6 billion**

Mara de Lima, FD

Shareholder value and the delivery of our strategic objectives is measured through the growth in distributions and specifically the growth in distribution per share. The distribution for the year ended 31 March 2018, grew by 66% on the comparative year ended 31 March 2017.*

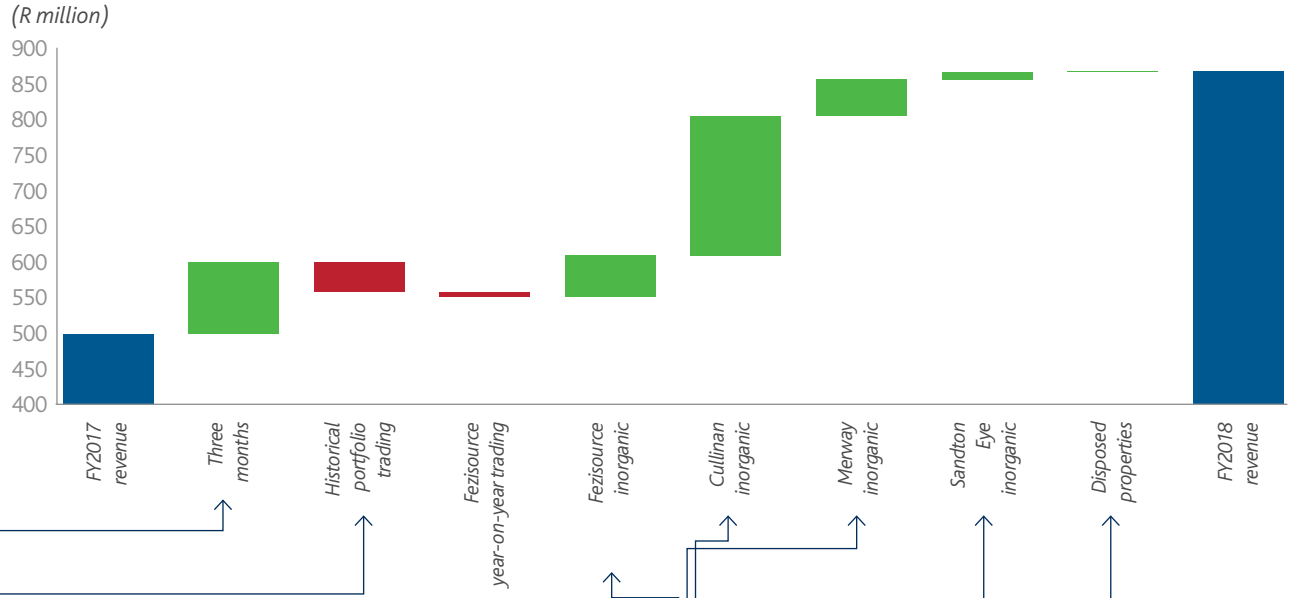
** Like-for-like comparison – refer to the reporting period definitions on the contents page.*

Distributions

The board declared a dividend of 78.46 cents per share for the six months ended 31 March 2018 resulting in the total dividend per share for the year ended 31 March 2018 of 120.29 cents per share (including the clean out dividend, declared as at 31 May 2017, of 14.74 cents per share). The Fund's distributable earnings for the year increased by 66% to R656 million, mainly due to the inclusion of the additional properties from Cullinan and Merway, effective from 1 July 2017. The Fund currently owns 53 properties valued at R12.6 billion compared to 24 properties valued at R8.1 billion in the prior year.

Hospitality changed its financial year end from June to March during the prior period, resulting in 12-month period compared to a nine-month prior period. For the purpose of comparison and to mitigate the effect of the seasonality in the nine-month results, an illustrative 12-month prior period is largely used to compare the year-end information.

Year-on-year revenue analysis



Notes

Three months (April to June) relate to the additional months not included in the prior nine-month period as a result of the change in year end. The previously reported nine-month period included months July 2016 to March 2017.

The historical portfolio trading relates to the 12 hotels owned at 30 June 2016 and a portion of the Inn on the Square, which was disposed of in November 2016. The year-on-year trading ended 9% down on the comparative period.

The acquisition of Fezisource in September 2016 included seven months in the prior period. The same portfolio of hotels ended 5% down on the prior year in the same period (September to March).

The inorganic growth on the Fezisource portfolio, for the five months (April to August) not included in the 2017 financial year results.

The **Cullinan inorganic growth** relates to the nine months (July to March) for the 10 Cullinan hotels acquired 1 July 2017.

The **Merway inorganic growth** relates to the nine months (July to March) revenue for the 19 Merway (SUN1) hotels acquired 1 July 2017.

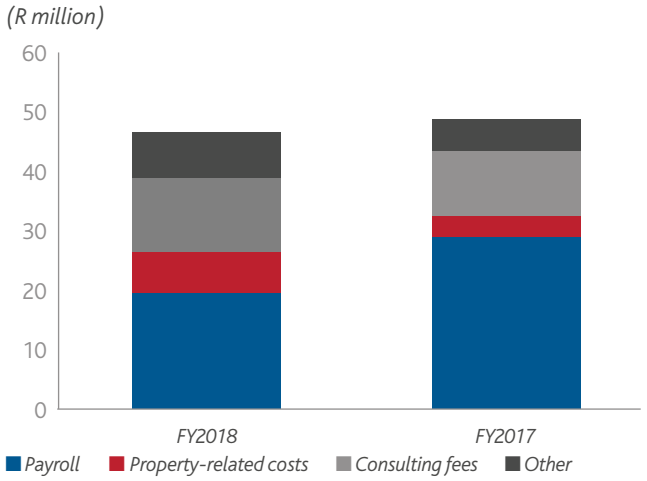
The **Sandton Eye inorganic growth** relates to the seven months (September to March) revenue for the Sandton Eye retail section, which was acquired 22 August 2017.

The **disposed properties** revenue relates to adjustments made on the properties sold in the 2016 financial year, but form part of the comparative 12-month period (i.e. included in April 2016 to June 2016).

The above revenue excludes any lease straight-line adjustments.

Expense analysis

Year-on-year expenses are summarised as follows:



Payroll expenses include non-executive directors' fees. In the prior period, a once-off expense of R8 million was incurred following the restructure of the asset management division and the termination costs in respect of the previous CEO's contract, in line with the change of control clause contained in his contract of employment.

Property-related costs include levies and property taxes on sectional title schemes. Property taxes of freehold hotel properties, is accounted for in the hotel income statement before rent.

Consulting fees include audit, investor relations-related and legal fees.

Other expenses include exceptional once-off expenses incurred in the 2018 financial year relating to the debt restructure fees of R3.6 million and the transaction fees of R1.9 million on the subsidiary acquisitions.

Distributable income statement

	Audited year March 2018 R'000	Audited nine months March 2017 R'000	Illustrative year March 2017 R'000
Revenue	**866 917**	498 803	600 100
Rental income – contractual	**866 501**	498 803	599 684
– straight-line accrual	**416**	–	416
Operating expenses	**(46 555)**	(38 858)	(48 675)
Operating profit	**820 362**	459 945	551 425
Profit/(loss) on sale of investment properties	**–**	36 528	36 528
Goodwill impairment	**–**	(16 003)	(16 003)
Net finance cost	**(164 063)**	(115 504)	(155 235)
Equity-accounted profit from associate	**275**	409	413
Non-cash adjustments	**(416)**	(20 525)	(20 941)
Taxation	**–**	–	–
Distributable profit	**656 158**	344 850	396 187

Commentary

Rental income for the comparable 12-month period increased by 44% and includes the impact of the additional 29 properties from 1 July 2017 as well as the impact of the 10 properties for the full year (included in the prior year from 1 September 2016). Rental income on a like-for-like basis, for a 12-month comparable period, on the 24 properties decreased by 8%. Hospitality's rental income is subject to seasonal variability and the prior year included a robust summer period in the Western Cape. In the current year, the impact of the drought had a significant impact on the rental income from the Western Cape.

Hospitality's expenses for the year are 4% or R2 million below the prior year at R47 million. In the prior period, a once-off expense of R8 million was incurred with the restructure of the asset management division and the termination costs in respect of the previous CEO, in line with the change of control clause contained in his contract of employment. Hospitality's expenses on the comparable 12-month period increased by 14% (excluding the restructure costs) predominantly due to the debt restructure fees of R3.6 million and the transaction fees of R1.9 million on the subsidiary acquisitions.

The Inn on the Square was disposed of for a cash consideration of R157 million on 20 November 2016. The fair value of the property at the date of sale was R108 million and a break fee of R12 million was paid to the management company due to the sale.

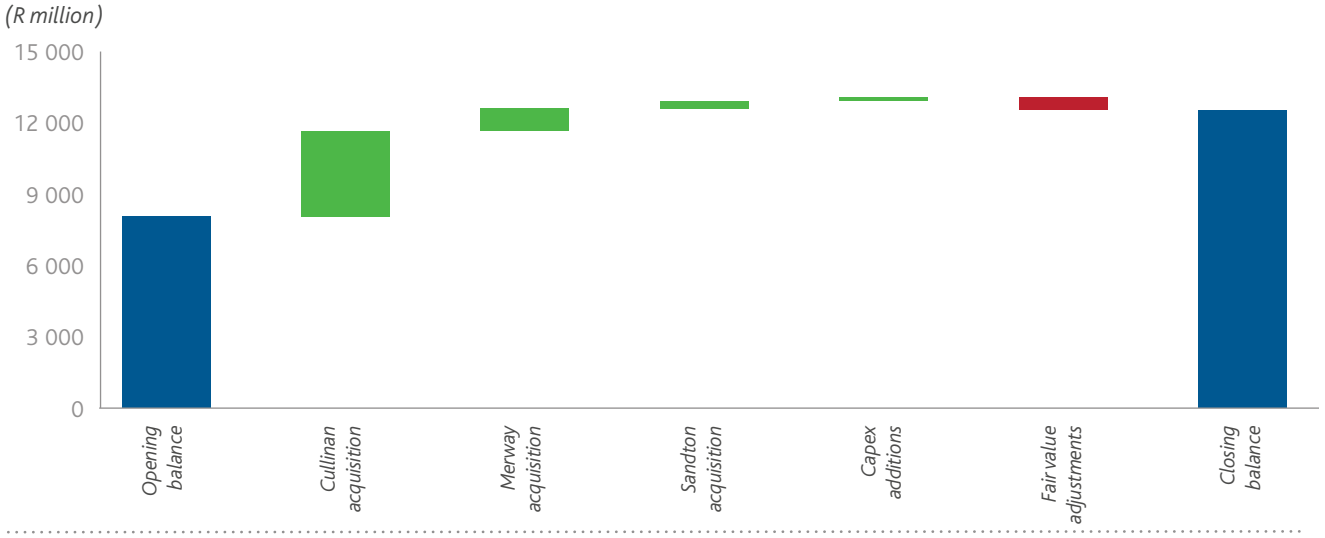
The acquisition of Fezisource resulted in goodwill of R16 million being recognised at the time of acquisition but was subsequently impaired at year end.

Net finance costs of R164 million (2017: R155 million) are higher than the prior year due to increased debt facilities and the early settlement fees paid on former borrowings.

Equity-accounted profit from Vexicure Proprietary Limited and AshBrook Investments 72 Proprietary Limited.

Non-cash adjustments relate to the lease straightlining in the current year and the profit on sale of the investment properties and the goodwill impairment in the prior year.

Investment property analysis



The current year results include acquisitions of the entire share capital of Cullinan Hotels Proprietary Limited (Cullinan) and Merway Fifth Investments Proprietary Limited (Merway), letting operations owning 10 and 19 hotels respectively, for an aggregate purchase consideration of R3.6 billion, which was calculated on an income-for-income basis. The acquisition was funded through a fully underwritten rights offer of R1.0 billion and an equity-settled share transaction to the value of R2.6 billion.

Hospitality had also concluded the acquisition of various sections and exclusive use areas of the Sandton Eye sectional title scheme, as well as an existing real right of extension in the scheme for a purchase consideration of R302 million. The acquisition was funded by the debt raised from Standard Bank of R272 million and Hospitality shares to the value of R30 million. Transfer was effected on 22 August 2017.

Southern Sun Waterfront

Condensed consolidated statement of financial position

as at 31 March 2018

	Audited March 2018 R'000	Audited March 2017 R'000
ASSETS		
Non-current assets	**12 534 884**	8 063 583
Investment properties	**12 533 970**	8 061 038
Furniture, fittings and equipment	**163**	198
Derivative asset	**–**	1 870
Investment in associates	**751**	477
Current assets	**590 106**	391 480
Non-current assets held for sale	**65 600**	65 610
Derivative asset	**–**	280
Trade and other receivables	**133 915**	115 536
Cash and cash equivalents	**390 591**	210 054
Total assets	**13 124 990**	8 455 063
EQUITY AND LIABILITIES		
Equity	**11 104 603**	6 597 503
Stated capital	**9 027 065**	5 565 258
Retained earnings	**444 108**	138 719
Common control reserve	**(1 106 013)**	–
Fair value reserve	**2 739 443**	893 526
Non-current liabilities	**1 941 596**	1 491 006
Interest-bearing liabilities	**1 936 071**	11 488 493
Long-term incentive – non-current portion	**1 483**	–
Derivative liability	**4 042**	2 514
Current liabilities	**78 791**	366 554
Trade and other payables	**51 919**	111 876
Short-term portion of interest-bearing liabilities	**–**	230 000
Provision for shareholder redemption	**24 129**	24 129
Long-term incentive – current portion	**502**	–
Derivative liability	**2 241**	548
Total equity and liabilities	**13 124 990**	8 455 063

Commentary

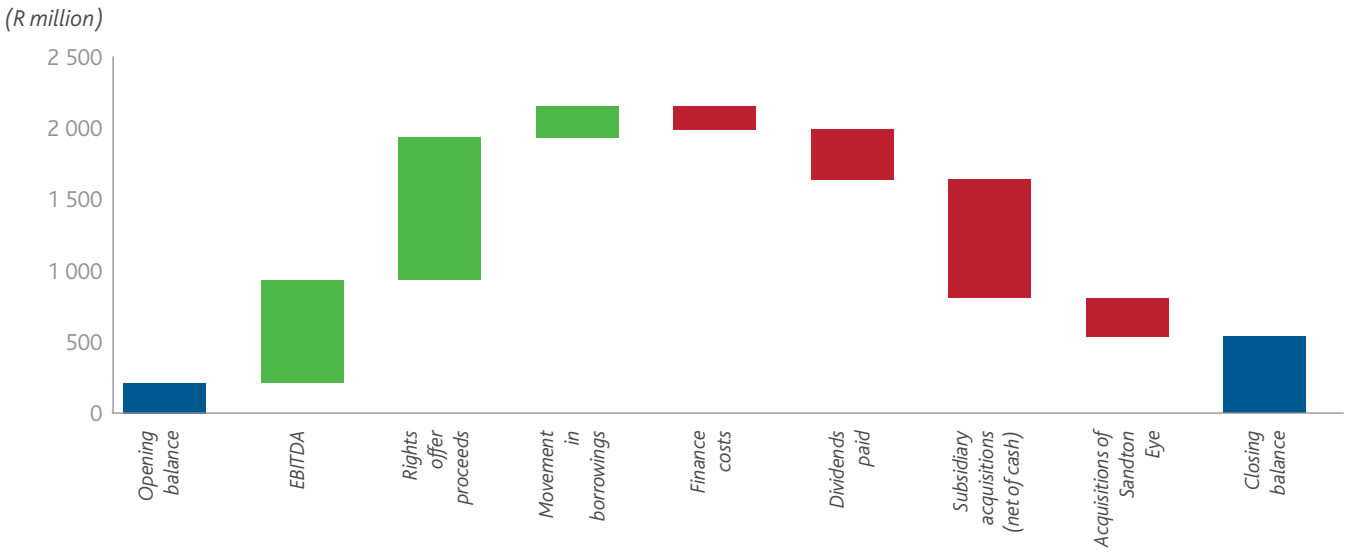
Investment property increased by R4.5 billion due to the acquisition of Cullinan and Merway (R4.6 billion), the acquisition of sections in the Sandton Eye of R301 million, the increase in the capital investment of R145 million offset by the fair value decrease of R536 million, see page 18 for more detail.

Non-current assets held for sale consist of Kopanong Hotel and Conference centre, a 57 chalet country estate and conference centre.

The acquisition of Cullinan and Merway was funded through a rights issue of R1 billion and the issue of 174 million shares to the value of R2.6 billion. The acquisition of the sections in the Sandton Eye were funded through an issue of 30 million shares and the balance in cash.

The group's debt facilities with financial institutions as at 31 March 2018 amounted to R2.4 billion (2017: R2.0 billion). The facilities utilised at 31 March 2018 is R1.9 billion (2017: R1.7 billion) resulting in a loan to value (LTV) ratio (total interest-bearing liabilities/investment properties plus properties held for sale) of 15.4% (2017: 21.4%). The reduction in the gearing ratio is mainly due to the ungeared acquisition of Cullinan & Merway. The interest cover ratio improved to 5.0 times (2017: 4.0 times), well above the required debt covenant limit of 2.0 times, see page 20 for more detail.

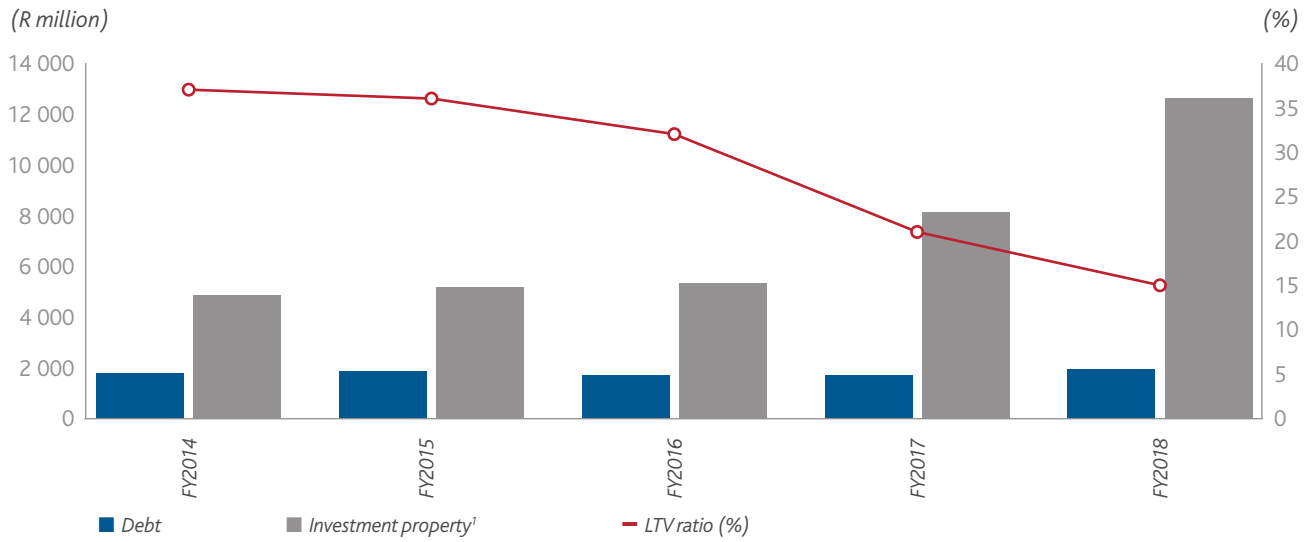
Cash flow analysis



Historically, security provided to lenders, noteholders and hedge providers was based on a specific property or properties. During the 2018 financial year, Hospitality restructured its debt whereby a special-purpose vehicle ('SPV') was established, in order to secure all finance providers, ranking *pari passu* amongst each other. A security sharing agreement was signed between Hospitality, the debt guarantor, noteholders, hedge providers and lenders. Hospitality issues corporate bonds in the debt capital markets through the Company's domestic medium-term note ('DMTN') programme of R5 billion, with current issued notes amounting to R890 million. Hospitality has term loans of R1.05 billion, as well as a revolving credit facility available of R500 million, which is currently not being used.

Hospitality has reduced its loan-to-value ('LTV') ratio over the last five years to 15%, which enables the Company to be financially resilient in these volatile trading conditions as well as facilitating growth through value-enhancing acquisitions.

LTV ratio analysis



[1] *Investment property for the calculation of the LTV percentage includes available-for-sale assets and assets held for trading.*

Prospects

The proposed acquisition of the seven casino properties will significantly change the financial outlook of the Fund. With regard to revenue, R1.9 billion is expected to be received as a fixed rental escalating at CPI until 2025. This will make up approximately two-thirds of the Fund's revenue, which will significantly reduce the volatility of the Fund's rental income from hotels. The LTV ratio will increase to approximately 28%, which is within acceptable levels and will still allow the Fund some headroom to make further value-enhancing acquisitions.

The entire property portfolio (hotels and casinos) is expected to increase the asset value to about R35 billion, with approximately R8 billion in additional debt. Investors are referred to the annual results presentation and the circular to be posted to shareholders in due course, for more information.

Mara de Lima
Financial Director

Future growth drivers

Brand affiliation

A strong local or international brand supports a hotel's identity and competitiveness. The diversity of brands in our portfolio attracts the key domestic and international market segments.

MACRO-ECONOMY

Hospitality invests solely in South Africa but it monitors both local and global macro-economic factors to identify trends. Property valuations and distributions are impacted by macro-economic factors, which require constant focus and attention from management.

HOSPITALITY INDUSTRY'S ECONOMIC CYCLE

The hotel economic cycle is generally closely tied to the macro-economic phases moving through the expansionary phase, the contractionary phase or the switchover phase. The cyclical and seasonal nature of the business links into the macro-economic environment and key analytics on trends remain crucial to support investment decisions.

LOCATION

Strategic property investments in prime locations, where visibility and accessibility to major business hubs or points of leisure interest are important demand drivers.

PORTFOLIO MANAGEMENT

Hotel operations require specialist expertise and are highly management and labour intensive. Creating strong partnerships with specialist hotel management companies protects the diversity of the Fund. A constant focus on improvement and development for each hotel is necessary in order to maintain products that are relevant to their markets.

CAPITAL CAPACITY

To maintain an appropriate balance of our debt and equity. Our distributions need to balance our cash requirements for reinvestment with our shareholders' expectations. We need to ensure that we have sufficient flexibility to adapt to prevailing economic conditions, to maintain and improve the portfolio.

OPERATING MODEL

Developing and attracting the management team over the short and medium term to benefit from their relevant knowledge and experience. Supporting the management team with the correct tools to accurately analyse and evaluate tenant performance.

Engaging, understanding and responding to our stakeholders

We believe that stakeholder relationships create value and therefore building trust, mutual respect and credibility with our stakeholders are vital to our long-term sustainability.

Our communication with employees and other stakeholders is open, honest, without prejudice and is supported by a disclosure of information policy to guide our behaviour, ensuring that our stakeholders know what to expect from us. We have taken our stakeholders' views into account in formulating our strategic objectives and report content.

Stakeholder groups (direct)	Nature of engagement
Investors (as detailed in the shareholder analysis on page 52 of the consolidated annual financial statements) and funding institutions, which include Rand Merchant Bank Limited, Standard Bank of South Africa Limited and Nedbank Limited	- JSE SENS - Media releases and published results - Integrated annual reports and financial statements - Annual general meetings and general meetings - Analyst and investor presentations - Hospitality's website
Tenants and hotel management companies	- Monthly and quarterly operational reviews through analytics and direct contact with hotel management companies to review each of their hotels' performance - Contract management as required - Sub-committee, body corporate and/or board membership to ensure good governance - Annual audits, sign off of annual accounts and audited rental certificates obtained
Professional suppliers and business partners	- Vetted and approved development and maintenance suppliers - Vetted and approved specialist FF&E suppliers - Development consultants
Employees (19 full-time employees based at Hospitality's head office in Rosebank)	- Communication from executives - Internal communications and posters - Induction programmes - Ongoing training and education - Employee surveys - Performance management programmes - Anti-fraud, ethics and corruption hotline - Staff engagement programme
Government and regulatory authorities	- Establish constructive relationships - Comment and interaction on developments in legislation - Membership of industry bodies, e.g. SA REIT Association and the Institute of Directors

Hospitality has both direct and indirect stakeholders (being the stakeholders of the hotel management companies). Our description of stakeholder relationships in this report is based on direct stakeholders to the Fund, as we can respond to these relationships and only influence the indirect stakeholder relationships through the hotel management companies.

In all our interactions with our direct stakeholders, we aspire to engage meaningfully in order to understand their requirements and to this end, we have committed to develop appropriate metrics to measure the quality of these relationships.

	Issues and expectations	Link to material matters
	- Sustainable growth and returns on investment - Results announcements - Dividends - Risk and opportunities of expansion - Transparent executive remuneration - Corporate governance and ethics - Liquidity and gearing	Capital capacity, adverse macro-economic conditions, investment yields
	- Absolute and relative performance - Benchmarking and oversight - Trading environment - Capital investment requests - Maintenance of contract terms - Good governance practices	Relationship with tenants and hotel management companies, investment yields
	- Future business opportunities - Relationships - Project performance - Level of standard and service	Relationship with tenants and hotel management companies, investment yields
	- Job security - Engagement - Performance management - Clear understanding of reward structures - Health and safety performance - Access to HIV counselling and wellness programmes - Career planning and skills development - Preferred employer	People skills and operating model
	- Compliance with legislation - Job creation - Investment in public and tourism infrastructure - Investment in disadvantaged communities - Reduction in energy and water consumption	B-BBEE transformation, capital capacity

Our material risks and opportunities

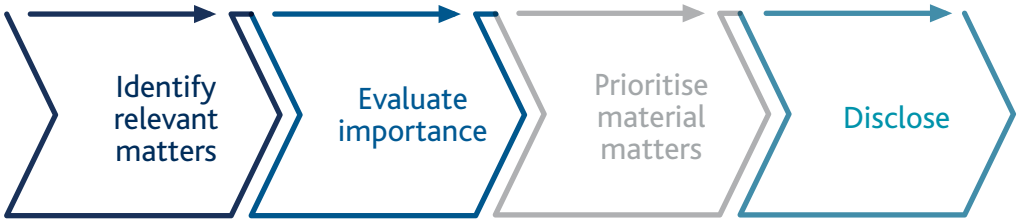
Determination of materiality

In line with the IIRC's <IR> framework on materiality, this report includes all information about matters that substantively affect the Company's ability to create and sustain value in the short, medium and long term.

At Hospitality, we define value as delivering sustainable returns to our shareholders, through distributions and capital appreciation, while positively contributing to our employees, business partners and the economy.

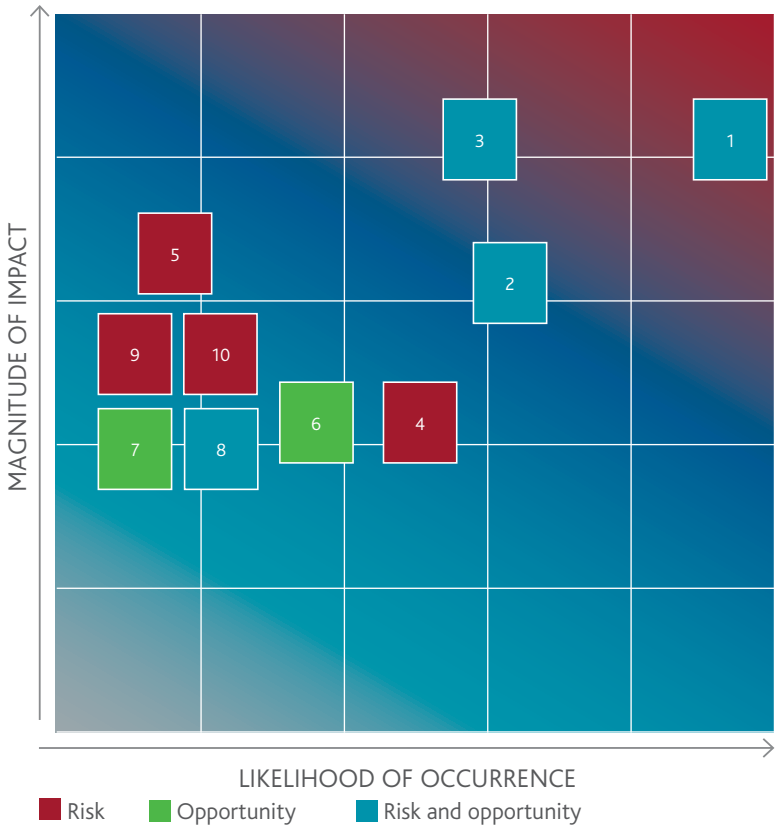
In determining which matters are material for disclosure in our IAR, we have considered whether the matter substantially influences or has the ability to substantially influence our strategy, business model or the forms of capital we utilise.

We determined the material risks and opportunities through the following process:



In order to identify our material risks and opportunities, we considered the global and domestic business environment together with output from our enterprise risk management function and stakeholder engagement. We evaluated and prioritised the relevant matters to determine our material risks and opportunities, which are depicted in the following heatmap. These material risks and opportunities are those that directly impact us. We compared the matters identified with those being reported on by our peer group to check that matters relevant to the industry have not been excluded from the process.

Our material risks and opportunities linked to strategic response



1. Macro-economic climate
2. Local authority capability
3. Investment opportunity
4. Regulatory change and compliance
5. Crime, safety, security and health
6. Capital capacity and opportunities
7. Portfolio management and product relevance
8. Human resources
9. Cyber, IT information
10. Credit risk

For a detailed understanding of how we manage risk, please refer to page 43 of the governance report.

What it means for us – material risks and opportunities

Context and response

MATERIAL MATTER 1: Macro-economic climate | *Risk and opportunity*

Context: Hospitality's operations are based in South Africa and are affected by the cyclical and seasonal nature of the broader tourism and hospitality industries, resulting in unpredictable distributable income.

The Fund's performance is impacted by macro-economic and political factors and influences on property market values, funding mechanisms and development costs. Exchange rate volatility impacts occupancy in foreign tourism, particularly business travel, leisure and the conferencing market.

The domestic tourism sector is affected by reduced spending in government travel, a consequence of tightened purse strings and more prudent expenditure.

Response: The Fund mitigates inherent trading risk by managing a well-diversified portfolio across geographic location and class of hotel.

We ensure the financial strength, durability and sustainability of the Fund to protect it against macro-economic shocks.

Our loan to value ratio is low and is well within the statutory limits of a REIT, and we are maintaining comfortable headroom on our covenants. With additional debt capacity and unutilised authorised shares, the Fund has the capacity to pursue attractively priced property acquisitions.

We work with industry bodies such as Cape Town and Western Cape Tourism, Trade and Investment ('WESGRO') and the South African Tourism Services Association ('SATSA') in their efforts to attract visitors to South Africa, which we believe is a competitive tourism destination.

Strength of risk response: Good

Magnitude of impact: High

Likelihood of occurrence: Almost certain

Risk rating:

Strategic objective: Sustain

MATERIAL MATTER 2: Local authority capability | *Risk and opportunity*

Context: Service delivery, limited infrastructure investment and funding challenges at South Africa's municipalities have compounded their capacity to supply water and electricity to ratepayers.

Intermittent water supply and unreliable electricity provision have affected the operational capability of hotels to provide consistent services to guests.

Municipalities and utility providers also increase rates and property taxes to fund their own shortfalls, placing an additional cost burden on hotel businesses.

Response: The Fund aligned its capital expenditure budgets to reduce dependencies on utilities. We also contracted the services of independent valuers and experts to conduct municipal valuations.

Energy and water-saving initiatives are encouraged and supported through capital replacement where appropriate.

The Fund earns 43% of its rental income from the Western Cape, which is experiencing a severe drought, placing pressure on the hotel management companies to deliver against their performance targets. Cape Town has implemented a fire readiness and response programme and a water resilience plan. A procurement programme is under way for a number of augmentation schemes, including desalination, water reuse, groundwater extraction and filtration.

Hospitality is working with industry bodies such as Cape Town and WESGRO, SAT and SATSA to seek solutions that will benefit the province's hospitality industry.

Strength of risk response: Good

Magnitude of impact: Moderate

Likelihood of occurrence: Probable

Risk rating:

Strategic objective: Sustain and optimise

MATERIAL MATTER 3: Investment opportunity | *Risk and opportunity*

Context: Depressed economic conditions have subdued consumer spending and some investments are not yielding the expected returns. We note an oversupply of hotels in certain markets.

Given this context, we carefully assess acquisition and major refurbishment opportunities, taking into consideration broader macro-economic fundamentals as well as seeking to understand each property's fit within the Hospitality portfolio from a location and class of hotel perspective. Assets that do not match our investment profile may be sold to reduce debt or fund new growth opportunities.

Response: We invest in quality properties in the South African hospitality industry.

Investment opportunities are evaluated and approved by the Board and due diligence is performed by expert service providers, prior to final acquisition.

We engage regularly with hotel management companies and monitor the performance of individual properties through monthly reports. In addition, peer group benchmarking, statistical analysis and reviews of economic trends are conducted by the Fund and the findings are used to optimise the performance of the properties.

Strength of risk response: Good

Magnitude of impact: High

Likelihood of occurrence: Probable

Risk rating:

Strategic objective: Sustain, optimise and grow

Risk rating: High Medium Low

Context and response

MATERIAL MATTER 4: Regulatory change and compliance | *Risk*

Context: Hospitality is faced with an increasing complexity of compliance requirements, as well as policy uncertainty.

Administrative burdens associated with visa regulations for foreign minors entering South Africa, for example, have affected the country's reputation as a destination of choice and have therefore directly impacted occupancy.

The government has applied a more stringent approach to employment equity and transformation targets within shorter than expected timelines.

The Fund is also subject to regulatory requirements as per the Companies Act, the JSE Listings Requirements, King IV™, as well as the voluntary guidelines of the International Integrated Reporting Framework, as applicable.

Response: Hospitality supports the principles of sound corporate governance.

Effective compliance controls are in place throughout the organisation. We meet our annual declaration to the JSE on REIT compliance.

The Fund maintained its level 1 B-BBEE rating. Our score empowers our tenants to increase their owning ratings (Hospitality being their biggest supplier), and in turn should result in increased government business and new business for these hotels. We continue to monitor any developments from government regarding the proposed transformation codes in the applicable charter.

Our management team and employees undergo regular training on legislation and the policy environment.

Strength of risk response: Good

Magnitude of impact: Low

Likelihood of occurrence: Rare

Risk rating:

Strategic objective: Sustain and optimise

MATERIAL MATTER 5: Crime, safety, security and health | *Risk*

Context: The management of the Fund is concerned about the safety, security and wellbeing of its employees.

Major violent incidents and criminal activities have a considerable effect on our business and the hospitality industry.

Fraud, including activities committed by staff and other external parties, is a concern and a damaging risk to our business.

Response: We apply preventive measures to combat fraud and detect potential fraudulent behaviours as well as investing in security measures to protect employees and guests.

Capital expenditure and budgets are approved by the Board and controls are in place to prevent overspend. Audit reviews are conducted both internally and externally to vet findings.

We hire skilled and experienced people to ensure complete and accurate reporting; experts evaluate data; balance sheet reconciliations are conducted monthly; and construction, operation, prevention and exposure reports are compiled by independent experts.

Strength of risk response: Good

Magnitude of impact: Moderate

Likelihood of occurrence: Rare

Risk rating:

Strategic objective: Sustain

MATERIAL MATTER 6: Capital capacity and opportunities | *Opportunity*

Context: As an investor in the South African hospitality industry, ensuring capital adequacy to fund value-enhancing acquisitions, as well as capital investments that improve yields within the existing portfolio, is a significant opportunity for us. An indirect benefit is the potential for job creation by the hotel management companies.

Hospitality currently distributes all of its profits to shareholders. Therefore new acquisitions are funded through share issues or by taking on additional debt. Hospitality's capital structure significantly improves its ability to fund acquisitions through the equity market. Distributions, however, need to balance our cash requirements for reinvestment with shareholder expectations.

Response: The Fund regularly conducts an assessment of all new opportunities. The performance of our existing portfolio guides our appetite for disposals and/or acquisitions.

Our capital expenditure programme is reviewed and approved by the Board.

The dividend policy is reviewed according to our capital capacity requirements.

Strength of risk response: Good

Magnitude of impact: Low

Likelihood of occurrence: Rare

Risk rating:

Strategic objective: Grow

Risk rating: High Medium Low

Context and response

MATERIAL MATTER 7: Portfolio management and product relevance | *Opportunity*

Context: The Fund's products are diversified across domestic and international brands, and hotel management companies who manage the hotel properties on behalf of the tenants.

Hotels operate in a competitive and overtraded space. They require maintenance, repairs and a substantial investment in technology to be able to attract and retain increasingly discerning guests. They also need to track trends in design, comfort and user-friendliness to be able to maintain and improve occupancy rates.

Response: The majority of the Fund's assets are in good condition and five-year capital expenditure plans are in place for each property. These are reviewed and updated annually.

The Fund works closely with the hotel management companies to plan product enhancements, improvements and ongoing maintenance.

Property visits and site inspections are conducted regularly. The data compiled from these engagements is consolidated into asset and property reports.

Strength of risk response: Good

Magnitude of impact: Low

Likelihood of occurrence: Possible

Risk rating:

Strategic objective: Optimise

MATERIAL MATTER 8: Human resources | *Risk and opportunity*

Context: Our independent Board, and the executive layer of the Fund, have the required skills, capability and expertise to advise and lead the Fund, which is the only specialised REIT on the JSE investing in the hospitality industry.

The growth of the hospitality and tourism industries in South Africa produces a high churn rate, as experienced managers seek career advancement opportunities elsewhere.

The challenge of improving scorecards on an employment equity level, and a more restrictive labour legislation environment.

Response: The Fund has refined its job specifications to ensure effectiveness and clarity for both managers and staff. Employees are skilled appropriately for particular job requirements. We invest in training programmes that enhance specific skill sets of our employees.

Strength of risk response: Good

Magnitude of impact: Low

Likelihood of occurrence: Possible

Risk rating:

Strategic objective: Optimise

MATERIAL MATTER 9: Cyber, IT information | *Risk*

Context: The hospitality business operates in a datacentric environment.

Cybercrime, hacking and other IT breaches are on the increase, posing a threat to data integrity.

South African companies are required to comply with the PoPI Act to ensure they collect, process and store personal information in a responsible manner, and are held accountable for any abuses that may arise.

Response: We ensure that our IT infrastructure is robust and resistant to external attacks.

Back-ups are conducted regularly, IT security is monitored and central servers are held with third parties.

Strength of risk response: Satisfactory

Magnitude of impact: Low

Likelihood of occurrence: Possible

Risk rating:

Strategic objective: Optimise

MATERIAL MATTER 10: Credit risk | *Risk*

Context: An uncertain economic environment impacts Hospitality's business, affecting distributions, property market values and development costs. This places pressure on the credit risk associated with our tenants. Hotel management companies are also impacted by their guests' ability to settle debt during challenging times.

Response: The Fund mitigates credit risk through a debtor management programme.

We have the necessary deposits and bank guarantee procedures in place to identify defaults and regularly monitor and identify non-serviceability of debtors.

Strength of risk response: Very good

Magnitude of impact: Low

Likelihood of occurrence: Possible

Risk rating:

Strategic objective: Sustain and optimise

Risk rating: High Medium Low

Our strategy provides a comprehensive and responsive framework to deliver value to our shareholders and stakeholders.

Informed by our ever-changing operating environment and our stakeholder engagement, our strategy is regularly reviewed to ensure that it proactively responds to our material risks and opportunities.

Strategic objectives and enablers

Strategic objectives >

Strategic enablers >

SUSTAIN

Financial strength and durability

An appropriate capital structure and dividend policy to ensure the business survives through the economic cycles

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets

OPTIMISE

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships

Business intelligence

Build and refine internal processes and systems to support portfolio management and decision-making

GROW

Organic growth

Grow our portfolio through organic means

Acquisitions

Continue to seek value-accretive acquisitions, both through platform, transactions and single asset acquisitions, that are well diversified both geographically and across brand segments

Demonstrating delivery

In order to demonstrate our strategy in action, we have built our performance and outlook reporting around our strategy.

Responsiveness test

The diagram below demonstrates the extent of how our strategy responds to material risks and opportunities:

Growth drivers	Sustain	Optimise	Grow
Adverse macro-economic climate	✓	✓	✓
Capital capacity	✓	✓	✓
Relationship with tenants/hotel management companies	✓	✓	✓
Investment yields	✓	✓	✓
B-BBEE transformation	✓	✓	✓
People skills and operational model	✓	✓	✓
Operational and regional diversity	✓	✓	✓

Sustain

Financial strength and durability

An appropriate capital structure and dividend policy to ensure the business survives through the economic cycles.

Approach

- As a REIT, the majority of our profit (a minimum of 75%) is required to be distributed to shareholders. The Fund is dependent on the financial markets to source equity and debt capital to fund growth and optimise our capital structure. As the Fund gains increasing critical mass, our resilience to economic cycles improves through the diversity of our locations, brands and classes of hotels
- Our debt covenants require an LTV below 40% and an interest cover ratio of not less than 2.0x

Related material matters

- Adverse macro-economic climate
- Capital capacity
- Relationship with tenants and hotel management companies
- Investment yields
- B-BBEE transformation
- Operational and regional diversity

Key performance indicators

	Self-assessment	12 months ended 2018	9 months 31 March 2017	12 months 30 June 2016
Distributable earnings		**R656 million**	R345 million	R272 million
Dividend per share (cents)		**120.29**	105.09	148.54*
Interest cover ratio		**5.0x**	4.0x	2.7x
LTV		**15.4%**	21.1%	32.4%
Average cost of net debt		**10.3%**	10.4%	10.0%
Market capitalisation		**R6.8 billion**	R4.6 billion	R2.1 billion

** Per combined A and B shares.*

Key initiatives

I. Ongoing review and management of our capital structure
II. Ensure an appropriate distribution policy/ratio

Green
2018 performance improved compared to prior year or achievement in line with strategy.

Yellow
performance flat against prior year or strategic goals.

Red
performance below prior year or strategic goals.

2018 performance

Hospitality has transformed its financial strength and sustainability in 2018 through several initiatives and a focus on priorities. We have restructured the previously complicated debt structure into a much simpler structure with one SPV as security for all our borrowings. Properties encumbered can be added or removed to facilitate efficient and effective lending, while still ensuring appropriate asset management in decisions to be taken on asset acquisitions or disposals. Hospitality is well within its debt covenants, with an LTV of 15% (against a covenant of not more than 40%) and an interest cover ratio of 5.0x (against a covenant of not less than 2.0x).

Hospitality's dividend policy has remained unchanged for the current year and the immediate future due to the low LTV (current policy is to distribute 100% of our distributable earnings). Our dividend policy will continue to be reviewed annually to ensure the strength of our financial sustainability. The Fund is well positioned to take on more gearing and is in a solid financial position to deliver on creating shareholder value into the future.

Reflecting back on 2017's commitments

In our 2017 IAR, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2018 priorities	Status
Increase the DMTN programme from the original R2.0 billion to R5.0 billion to increase Hospitality's funding capacity and to create flexibility in Hospitality's funding options	✓
Refinance the R600 million bridging facility considering the debt maturity profile	✓
Diversify financing with major banks to reduce interest costs and counterparty risk	O
Provide increased flexibility in relation to providing collateral to funders to improve financing costs	✓

2018 priorities	Status
Leverage increased scale and reduced gearing to achieve lower cost of debt	✓
Complete a fully underwritten R1.0 billion rights offer to fund the acquisition of Cullinan	✓
Consider Hospitality's distribution policy in order to ensure sufficient flexibility to prevailing economic conditions and cash for reinvestment to maintain and improve the portfolio	✓

✓ *Completed* O *Ongoing* ✗ *Not achieved*

2019 objectives and future outlook

- Realise an improvement on the weighted average cost of debt post-early settlement fees on debt restructure
- Maintain growth in distribution and distribution per share
- Increase gearing ratio to utilise cash more effectively
- Increase DMTN programme to R10 billion

Sustain

Product relevance

Own and maintain a variety of quality properties that are relevant in their markets.

Approach

- Hospitality has a five-year capital expenditure programme per property, which is prepared in consultation with the hotel management companies. These include major upgrades and extensions, smaller projects to improve hotel amenities and ongoing maintenance and IT capex. Capital investments and projects are proposed by management and approved annually by the Board
- Under this programme, the investment cycle for major refurbishments is generally 10 to 14 years while softs, which include upholstery, linen and curtains, are replaced on average every five to seven years. Furniture, fittings and equipment consist of various components, with expected replacement cycles of between five and 12 years. The Fund's capital expenditure benchmark is on average 20% of rental income and is evaluated on the investment criteria per property
- Once projects are approved, Hospitality is tasked with overseeing the projects which are outsourced to specialist service providers. Suppliers are assessed and approved to ensure standards are maintained at competitive prices
- We continuously review the suitability of individual properties into the Fund's investment strategy and will, from time to time, dispose of properties which no longer meet our criteria

Related material matters

- Adverse macro-economic climate
- Capital capacity
- Relationship with tenants and hotel management companies
- Investment yields

Key performance indicators

Self-assessment		12 months ended 2018	9 months 31 March 2017	12 months 30 June 2016
Capital expenditure		**R148 million**	R73 million	R116 million
Capital expenditure as % of rental income		**17%**	15%	25%
Disposals		**Portion of Kopanong for R1 million**	1 property for R157 million	7 properties for R206 million

Key initiatives

I. Maintain and upgrade key properties

II. Develop initiatives to address utilities risk

Green
2018 performance improved compared to prior year or achievement in line with strategy.

Yellow
performance flat against prior year or strategic goals.

Red
performance below prior year or strategic goals.

2018 performance

A number of capital improvement projects were undertaken and included the following larger projects:

- The FF&E refurbishment of the meeting rooms and bar on the mezzanine level at The Westin
- The FF&E refurbishment of the public areas at Arabella
- The FF&E refurbishment of the meeting rooms and public areas on the mezzanine level at the Holiday Inn Sandton
- The full refurbishment of the bedrooms and bathrooms of the 92 Value Stay rooms at the Birchwood Hotel
- An upgrade and reconfiguration of a restaurant at the Birchwood Hotel
- The white boxing and development of a Spur restaurant at the Garden Court South Beach

In addition to these planned projects, contingency funds were allocated to projects at the Fund's Cape Town properties in response to the drought situation and that 'day zero' was possible before the winter rains. Desalination plants have been procured and installed at The Westin (to supply fresh water to The Westin, Southern Sun The Cullinan, and Southern Sun Waterfront), The Radisson Blue Waterfront and StayEasy Century City. Filtration plants are installed at Southern Sun Newlands and Sun Square Gardens, and water storage capacity is increased at Protea Victoria Junction, SUN1 Foreshore, SUN1 Parow and SUN1 Milnerton.

Reflecting back on 2017's commitments

In our 2017 IAR, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2018 priorities	Status
Mock-up rooms were completed and approved at the Westin Cape Town in preparation for the room refurbishment programme to be undertaken in FY2019 and FY2020	✓
A total of 92 Value Stay rooms at the Birchwood Hotel and OR Tambo Conference Centre will be refurbished at a cost of R9.2 million	✓

✓ *Completed* ( ) *Ongoing* ✗ *Not achieved*

2019 objectives and future outlook

- The first phase of the FF&E refurbishment of the bedrooms at The Westin over the winter months – the project will be completed in FY2020
- The first phase of the FF&E refurbishment of the bedrooms at Arabella over the winter months – the project will be completed in FY2020
- Refurbishment of two large conference facilities at the Birchwood Hotel
- Final commissioning and licensing of the water plants at the Cape Town properties
- Restaurant refurbishments at the Radisson Gautrain
- Public area refurbishment at Champagne Sports Resorts' reception and golf club house
- Various plant and equipment replacement at several properties, for example chillers, lifts and upgrading of bedroom door locks
- The Board has approved a total of R236 million for maintenance capital in FY2019

Optimise

Property portfolio management

Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships.

Approach

- Our property portfolio management approach is outlined in detail in our business model (see pages 8 and 9)

Related material matters

- Adverse macro-economic climate
- Relationship with tenants and hotel management companies
- Investment yields
- People skills and operating model
- B-BBEE ratings

Key performance indicators

Self-assessment	12 months ended 2018	9 months 31 March 2017	12 months 30 June 2016
Contractual rental income	**R867 million**	R499 million	R475 million
Annual comparison[1] (see contents page)	**31 March 2018**	31 March 2017	31 March 2016
Occupancy	**63.0%**	63.6%	62.7%
ARR	**R1 087**	R1 088	R1 014
Revpar	**R685**	R692	R636
B-BBEE rating	**Level 1**	Level 1	Level 4

[1] *Includes Hospitality's portfolio of 52 properties and excludes Champagne Sports Resort in the current and prior years.*

Key initiatives

I. Quarterly reviews with hotel management on business performance

II. Reviews of operating plans, standards, and brand opportunities

Green
2018 performance improved compared to prior year or achievement in line with strategy.

Yellow
performance flat against prior year or strategic goals.

Red
performance below prior year or strategic goals.

2018 performance

Negotiated and finalised a switch from a fixed lease to a fixed and variable lease at Champagne Sports Resort. This was in the interest of the parties to create a sustainable business model going forward.

Negotiated and amended some of the key terms of the tenant's management agreement and ancillary agreements with the Birchwood Hotel, with the objective to optimise and improve the sustainability of the business model.

Reflecting back on 2017's commitments

In our 2017 integrated annual report, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2018 priorities	Status
Apply our portfolio management and asset management expertise to manage our growing portfolio in order to deliver on its return potential while mitigating the inherent risks	O
We will continue to engage with our tenants, the hotel management companies to further strengthen these relationships concentrating on maintaining or improving operating margins and to seek out any revenue creating opportunities	O

✓ *Completed* O *Ongoing* ✗ *Not achieved*

2019 objectives and future outlook

- Arabella Hotel and Spa and Mount Grace Hotel and Spa will be included in Marriott's Autograph Collection brand, with the view to improve their distribution and accessibility to Marriott's global loyalty programme
- Ongoing review of the hotel operating plans and business opportunities

Optimise

Business intelligence

Build and refine internal processes and systems to support portfolio management and decision-making.

Approach

- Hospitality's portfolio is growing significantly and the Fund aims to act as opportunities arise, or identify risks before they become material. This requires an information database with reports being readily available to management.

Related material matters

- Relationship with tenants and hotel management companies
- Investment yields
- People skills and operating model

2018 performance

Hospitality has aligned its accounting system with its majority shareholder. Information is consolidated and reported on Business Planning and Consolidation ("BPC") software, with the underlying general ledger maintained in SAP Software Solutions. The capital expenditure process has been matured in SAP through the year and is running efficiently. During the year, Pastel had been used to maintain debtors' management and invoicing, but this has subsequently all been transferred into SAP. The Fund has built a database, to retain all the relevant hotel information received in order to analyse information and improve decision-making, and will be completed and implemented in the 2019 financial year.

Reflecting back on 2017's commitments

In our 2017 IAR, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

Key initiatives

I. Build and refine internal processes and systems to support portfolio management and decision-making

II. Accounting system integration and streamlining

Green
2018 performance improved compared to prior year or achievement in line with strategy.

Yellow
performance flat against prior year or strategic goals.

Red
performance below prior year or strategic goals.

2018 priorities	Status
We will continue to invest in systems and business intelligence tools to ensure our ability to effectively monitor performance, identify efficiencies and to support decision-making. This will ensure that we have the capacity to analyse the portfolio and potential acquisitions as the assets under management increase, including decisions relating to capital allocation and managing contracts.	()

2019 objectives and future outlook

- Complete the SAP integration (accounts receivable and invoicing)
- Complete the database implementation
- Continue to improve the internal control environment through the use of systems at the Fund
- Continue to analyse and enhance the systems and processes in order to effectively manage the portfolio

✓ *Completed* () *Ongoing* ✗ *Not achieved*

Grow

Organic growth

Grow our portfolio through organic means.

Approach
- Monitor performance strategies of the management team at the hotel properties
- Comparisons of hotel performance against the market performance of the key regions
- Review key initiatives to protect or enhance operating margins

Related material matters
- Capital capacity
- Adverse macro-economic climate
- Investment yields
- Operational and regional diversity

Key performance indicators

Occupancy[1]	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Western Cape	65.1%	65.5%	64.7%	65.7%	68.8%	**67.0%**
Gauteng	58.3%	59.2%	58.6%	59.3%	60.2%	**59.3%**
Rest of SA	66.5%	66.3%	66.4%	63.9%	66.4%	**68.9%**
Sub-total (excluding SUN1)	62.6%	63.1%	62.6%	62.6%	64.6%	**64.4%**
SUN1	68.3%	62.9%	63.0%	63.2%	58.5%	**56.6%**
Total	63.5%	63.0%	62.6%	62.7%	63.6%	**63.0%**
SA hotel industry (STR)[2] Occupancy	61.0%	62.2%	62.5%	64.0%	65.1%	**64.2%**

Key initiatives
I. Monthly and quarterly reviews with hotel management on business performance
II. Reviews of operating plans, standards and brand opportunities

[1] Includes Hospitality's portfolio of 52 properties and excludes Champagne Sports Resort in the current and prior years.
[2] STR Global South African Review: April to March.

Access Hospitality's annual results presentation on http://www.hpf.co.za/investors for more trading results.

2018 performance

The hotel trading results are compared on a like-for-like basis for the 12-month period ended 31 March 2018 and thus include the acquired properties and exclude the disposed property for this full period. For the purpose of comparing to the STR Global South African Hotel Review ('STR') the SUN1 trading results are excluded.

Room occupancy for the Fund's hotels declined by 0.4% to 64.4% while the market experienced a decline of 1.3% to 64.2%. Average room rate ('ARR') growth of below inflation, for most hotels in the portfolio, with some hotels experiencing a decline in ARR, led to an overall decline in ARR of 0.4%. Revpar thus decreased by 0.9%. The STR figures show a growth in ARR of 2.4% and growth in Revpar of 1.1% for the South African market over the same period. Total room revenue for all the hotels over the 12-month period, including SUN1, at R2.2 billion was 0.5% down on the prior year.

The Fund's hotel properties are predominantly located in the Western Cape and Gauteng provinces of South Africa and these properties generated around 70% of the Fund's rental income over this period. Hotel occupancy for the Fund's Western Cape hotels declined by 2.6% to 67.0%. Monthly performance was volatile and this is reflected in the ARR declining by 0.6% collectively to R1 647, resulting in a Revpar decline of 3.1% to R1 104. As reported by STR, occupancy for the region declined 2.7% to 67.6%; however, ARR grew 4.0% resulting in Revpar growth of 1.1% to R1 089. While some of the Fund's smaller Cape Town properties produced Revpar growth, this was offset by declines at the larger properties due to a drop-off in higher rated international and association business as well as the poor sentiment stemming from the Cape Town water crisis.

In Gauteng, hotel occupancy over the period declined by 1.5% on the prior year to an occupancy of 59.3%. Individual hotels' trading was volatile over the period with ARR only increasing 2.1% on the prior year. This led to Revpar growth of 0.6% to R603. For the STR participating hotels in Gauteng, Revpar declined by 0.1% to R689.

For the hotels in the rest of South Africa, occupancy grew 3.8% to 68.9%. Nearly all experienced monthly volatility, with ARR declining by 1.7% to R906 resulting in a Revpar growth of 2.0% to R624.

For the SUN1 properties, hotel occupancy was flat on the prior year with the occupancy drop offset by the increased rooms available due to the extension at the SUN1 Southgate in the prior year. Total room revenue grew by 4.7%.

2019 objectives and future outlook

Hotel trading is expected to remain volatile but could settle and improve should the outlook on the South African economy improve. The contribution from the hotel properties in Cape Town is expected to come under pressure due to the increase in supply of hotel rooms and the poor sentiment stemming from the water shortage.

Grow

Acquisitions

Continue to seek value-enhancing acquisitions, both through platform transactions and key single asset acquisitions, that are well diversified both geographically and across brand segments.

Approach

- Our approach to growth is to invest in well-located, value-enhancing hotels in major urban centres with strong brands and diverse source markets
- We evaluate acquisition across a number of criteria including macro-economics, location and class of hotel, yield potential and debt sourcing

Related material matters

- Capital capacity
- Adverse macro-economic climate
- Investment yields
- Operational and regional diversity

Key performance indicators

Self-assessment	12 months ended 2018	9 months 31 March 2017	12 months 30 June 2016
Property portfolio value	**R12.6 billion**	R8.1 billion	R5.2 billion
Number of hotels	**53**	24	15
Net asset value per share	**19.21**	R19.96	R12.93

Green *2018 performance improved compared to prior year or achievement in line with strategy.*

Yellow *performance flat against prior year or strategic goals.*

Red *performance below prior year or strategic goals.*

Key initiatives

I. The acquisition of 29 hotel properties from Tsogo Sun substantially increased the size of the Fund and added to its diversification both geographically and across the brand segments
II. The acquisition of sections and exclusive use areas in the Sandton Eye sectional title scheme

2018 performance

The acquisitions as listed significantly impacted the scale of the Fund growing now to 53 well-established hotels, diversified both geographically and by class of hotel. The property portfolio value grew to R12.6 billion and the Fund's net asset value grew to R11.1 billion as debt remained largely flat. The decrease in the net asset value per share is largely due to the trading results, mainly in the Western Cape, and the impact this has on the fair market valuations.

Reflecting back on 2017's commitments

In our 2017 IAR, we stated certain priorities for our 2018 financial year. Below is the status of these goals:

2018 priorities	Status
We acquired a portfolio of 29 established hotel properties which are well located within their respective nodes, including 10 mid to upscale properties comprising the Cullinan group and 19 SUN1 economy hotels effective 1 July 2017	✓
The acquisition of sections and exclusive use areas in the Sandton Eye sectional title development increasing the Fund's interest in the scheme from 58.1% to 81.5% including the acquisition of an existing real right of extension of the scheme by some 10 000 bulk square metres, for an aggregate purchase consideration of R302 million, effective 22 August 2017	✓

✓ *Completed* ○ *Ongoing* ✗ *Not achieved*

2019 objectives and future outlook

- Hospitality has entered into agreements with Tsogo Sun and its wholly owned subsidiaries to acquire seven casino precinct properties for an aggregate purchase consideration of R23 billion. See page 7 of the report for further details
- We will continue to consider hotel property acquisitions in key locations

Holiday Inn Sandton

Corporate governance

The Board sets and oversees the governance framework for the group. The Board is comfortable that, based on an assessment completed during the year, the group has substantially adopted the principles of and contains the majority of the disclosure requirements of King IV™.

The process of implementing certain practices to strengthen King IV™ compliance remains ongoing and includes elements such as executive succession planning, the implementation of a formal stakeholder engagement policy and assurance on non-financial information in reports.

Ethics in action

The ethical character and morals of Hospitality are set by the Board and flow through to management, who are tasked to lead by example.

The code of ethics adopted by the Board is underpinned by supporting policies, including the code of conduct and conflicts of interest and share dealing policies. The social and ethics committee plays an amplified role in the implementation of anti-corruption and anti-fraud initiatives as set out in its report on page 45.

The codes of ethics and conduct record the Company's culture, how business is conducted and how people are treated. The conflicts of interest policy explains real and perceived conflicts of interests, and details the process for disclosure. General disclosures of directors' interests are made at least annually to the Company Secretary and are updated during the year. These disclosures are available to all Board members for inspection.

Dealing in Company securities by directors, their associates and senior Company officials is regulated and monitored in accordance with the JSE Listings Requirements and the Company's share dealing policy. Hospitality maintains a closed period from the end of a financial period to the day of publication of its financial results and any time when the Company's shares are trading under cautionary.

The group prohibits all directors and employees from using confidential information, not generally known or available to the public, for personal gain.

The group's success depends on employing the most qualified people and establishing a working environment free from discrimination, harassment, intimidation or coercion based on race, religion, gender, age, nationality or disability. Training on the above governance policies form part of the Company's induction programme for employees and non-executive directors.

Responsible corporate citizenship

The Board believes that the group meets the definition of 'responsible corporate citizen' as a result of the implementation of its corporate governance policies and the governance framework that oversees and monitors such implementation. Further information on corporate citizenship and stakeholder engagement can be found on pages 45 and 22, respectively.

Value creation and reporting

The formulation and development of the group's short, medium and long-term strategy, including policies and operational plans to give effect to this strategy, has been delegated to management, for annual review and approval by the Board of directors. Refer to page 28 for further information on our strategy.

The Board accepts its accountability to shareholders for the group's performance and activities. Hospitality communicates with shareholders in person, through results presentations or face-to-face meetings, through its website, its transfer secretaries, its IAR and announcements. The AGM and any other general meetings give the directors the opportunity to inform shareholders about current and proposed operations and enables them to express their views on business activities.

Rosa van Onselen, Company Secretary

Hospitality's reporting philosophy and statement on assurance can be found under 'About this report' on page 1.

Board of directors

Hospitality has a unitary Board. The Board met on five occasions during the year under review.

The roles of chair and CEO are clearly defined to ensure a balance of power. While the chair is a non-independent non-executive director, the Board has appointed a strong lead independent non-executive director to ensure the necessary independence is upheld in the functioning of the Board. The lead independent non-executive director leads in the absence of the chair; assists with the management of any actual or perceived conflicts of interest that may arise; chairs the independent acquisition committee, which considers all related-party transactions; and will lead the performance appraisal of the chair.

The Board's main functions, as set out in its approved charter, include:

- Exercising control of the group and providing leadership.
- Adopting strategic plans, delegating and monitoring their implementation by management.
- Considering risks and opportunities in line with the Company's agreed risk parameters and approving major issues, including the Company's investment policies, acquisitions, disposals and reporting as well as monitoring operational performance.

- Monitoring the Company's performance
- Acting in the best interest of the Company and being accountable to shareholders and stakeholders

Hospitality's Board charter is regularly reviewed.

The directors' varied backgrounds and experience, as set out in their curricula vitae, which can be found on Hospitality's website on http://www.hpf.co.za, provide an appropriate mix of knowledge and expertise that is necessary to manage the business effectively. A clear division of responsibilities at Board level ensures a balance of power and authority, so that no individual can take unilateral decisions.

Although Hospitality has adopted a Board diversification policy, that includes race and gender diversity, no voluntary targets for race and gender have been set. Board diversity is assessed and monitored annually. The Board considers race and gender as a core measurement in the appointment of new members. Race diversity at Board level had improved as a result of the most recent Board appointments of Messrs Gani and Ahmed. The Board is satisfied that its current composition, the components of which are set out in the graphs on page 39, reflects an appropriate mix of knowledge, skills, experience, diversity and independence.

Messrs Gerald Nelson and Zuko Kubukeli have both served on the Board as independent non-executive directors for more than nine years, with lengths of service of 13 and 10 years respectively. They both continue to meet the classification of independence on a substance-over-form basis in terms of King IV™ and the JSE Listings Requirements.

Directors are appointed by the Board or at the Company's AGM. One-third of the directors retire annually at the AGM. In addition thereto, any director that has been appointed by the Board since the last AGM or any director that has reached the age of 70 years, retires annually. If they are eligible, these directors may offer themselves for re-election and if appropriate, will be recommended by the Board to shareholders for re-election.

Board appointments are conducted in a formal and transparent manner by the entire Board following recommendations made by the nomination committee.

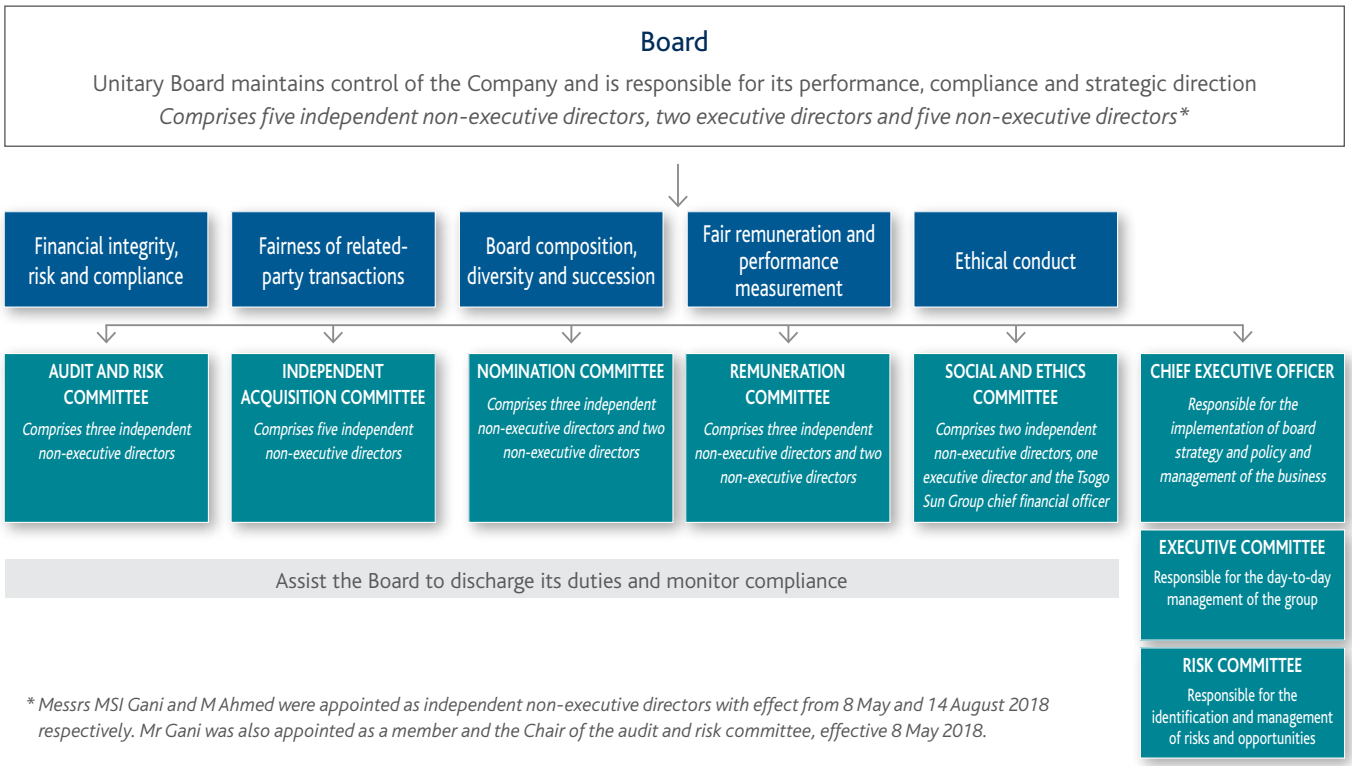
During the year under review, the following changes in Board composition occurred:

- Mr Marcel von Aulock resigned as a non-executive director effective 1 June 2017, following his resignation from Hospitality's majority shareholder, Tsogo Sun.
- Mr Jacques Booysen was appointed as a non-executive director effective 8 June 2017.
- Mr Willy Ross, an independent non-executive director, who had reached retirement age of 70, retired in terms of the Company's memorandum of incorporation at the AGM held on 19 October 2017.
- Ms Linda de Beer, the previous lead independent director and audit and risk committee chair, resigned on 8 February 2018, in pursuance of new opportunities.
- Mr Gerald Nelson was appointed as the lead independent director with effect from 13 March 2018.

The Board has constituted the following committees, to which it has delegated certain group responsibilities, as defined in their respective approved terms of reference. The Board retains accountability for the execution of their responsibilities, even when these are delegated.

Group governance framework

*At 31 March 2018**



** Messrs MSI Gani and M Ahmed were appointed as independent non-executive directors with effect from 8 May and 14 August 2018 respectively. Mr Gani was also appointed as a member and the Chair of the audit and risk committee, effective 8 May 2018.*

Executive directors

1. Keith Graham Randall (55)
Chief Executive Officer
BSc (Eng), GDE, MBA (University of Cape Town)
Appointed: 1 January 2017

2. Mara Raquel Dos Santos de Lima (40)
Financial Director
CA(SA)
Appointed: 30 September 2016

Non-executive directors

3. John Anthony Copelyn (68)
Chair, non-executive director
BA (Hons), BProc
Appointed: 1 September 2016

4. Jacques Booysen (58)
Non-executive director
CA(SA)
Appointed: 8 June 2017

6. Laurelle McDonald (36)
Non-executive director
CA(SA)
Appointed: 1 September 2016

7. Zibusiso Janice Kganyago (51)
Non-executive director
BCom (University of Natal)
Appointed: 1 September 2016

Independent non-executive directors

8. Mohamed Haroun Ahmed (53)#
Independent non-executive director
BCom (Accounting)
Appointed: 14 August 2018

9. Donald (Don) George Bowden (59)
Independent non-executive director
BCom (Economics), BAcc (Wits), CA(SA)
Appointed: 24 August 2012

11. Zola Nwabisa Malinga (40)
Independent non-executive director
CA(SA), BCom (Accounting)
Appointed: 8 July 2013

12. Gerald Alan Nelson (63)
Non-executive director – lead independent
BSc Building (Wits)
Appointed: 25 May 2005

13. Zuko Ntsele Kubukeli (45)
Independent non-executive director
PhD (Human Biology) (UCT), BSc (Medicine) (Hons) (UCT), BSc (Biochemistry and Microbiology) (UCT)
Appointed: 27 June 2008

14. Sydney (Syd) Arnold Halliday (71)
Independent non-executive director
CAIB (SA), ACIS
Appointed: 30 June 2013

** Appointment effective 8 May 2018*
 # Appointment effective 14 August 2018 – photo not available

5. James Robert (Rob) Nicolella (49)

Non-executive director

CA(SA), PLD

Appointed: 1 September 2016

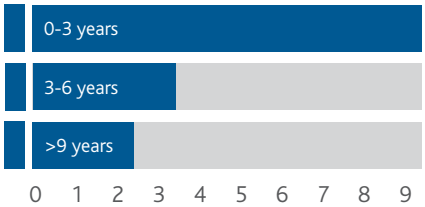
10. Mahomed-Salim Ismail Gani (65)*

Independent non-executive director

CA(SA)

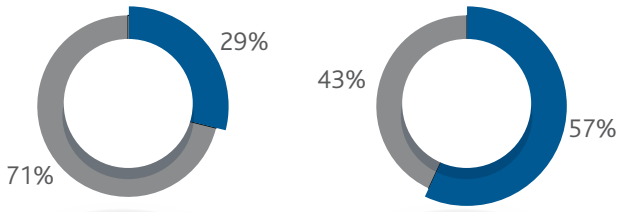
Appointed: 8 May 2018

Tenure of directors



Non-executive director average tenure = four years

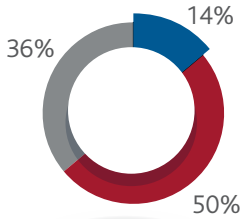
Board gender and racial diversity at the time of reporting (%)



Gender: Females, Males

Race: White, Black

Board membership at the time of reporting (%)



Executive
Independent non-executive
Non-executive

Board and committee meeting attendance for the year ended 31 March 2018

	Board	Audit and risk committee	Independent acquisition committee	Nomination committee	Remuneration committee	Social and ethics committee
Number of meetings held per year	5	6	5	2	2	3
Non-executive						
JA Copelyn	5 of 5			2 of 2	1 of 2	
J Booysen■	4 of 4			2 of 2	1 of 1	
ZJ Kganyago	4 of 5					
L McDonald	3 of 5					
JR Nicolella	3 of 5					
MN von Aulock#	1 of 1				1 of 1	
Independent non-executive						
L de Beer (LID)*	3 of 3	5 of 5	1 of 1		2 of 2	
DG Bowden	5 of 5	6 of 6	5 of 5		2 of 2	
SA Halliday~	5 of 5	6 of 6	5 of 5			
ZN Kubukeli	5 of 5		4 of 5	2 of 2		3 of 3
ZN Malinga	5 of 5	5 of 6	5 of 5		2 of 2	
GA Nelson (LID)^	5 of 5		5 of 5	2 of 2		3 of 3
W C Ross*◊	1 of 1					
Executive						
KG Randall (CEO)	5 of 5					3 of 3
M de Lima (FD)	5 of 5					
Other						
R Huddy+ (CFO, Tsogo Sun)						3 of 3

\# *Resigned on 1 June 2017.*
■ *Appointed 8 June 2017.*
*◊ *Retired on 19 October 2017.*
* *L de Beer resigned as lead independent director and as Chair of the audit and risk committee on 5 February 2018.*
^ *Appointed as lead independent director effective 23 March 2018.*
~ *Appointed member of the nomination committee effective 13 March 2018.*
\+ *Appointed member of the remuneration committee effective 13 March 2018.*

Remuneration committee
(two meetings held during the financial year)[1]

Members at 31 March 2018
Don Bowden (Chair)
Jacques Booysen
John Copelyn
Zuko Kubukeli
Zola Malinga

See meeting attendance schedule above.

The remuneration committee is chaired by an independent non-executive director. The committee oversees the setting and implementation of the remuneration policy for the group and ensures that the policy and remuneration implementation report are tabled every year to shareholders at the Company's AGM for separate non-binding advisory votes.

The committee recommends to the Board the remuneration and incentivisation of the Company's directors; evaluates the performance of the executive directors; and sets their annual key performance indicators.

The committee meets at least twice a year. Ad hoc meetings are held to consider special business, as required. The CEO and FD attend meetings of the remuneration committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The remuneration policy and remuneration implementation report can be found on page 46.

The Board is satisfied that the committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period under review.

Key focus area addressed during the 2018 financial year

- Adopting an appropriate share appreciation bonus scheme, the details of which are set out on page 46 of this report

Key focus areas for the 2019 financial year

- Implementing the share appreciation bonus scheme
- Benchmarking of non-executive directors' fees

Audit and risk committee
(six meetings held during the financial year)

Members at 31 March 2018
Don Bowden (Acting Chair)[1]
Syd Halliday
Zola Malinga
Mahomed Gani[2]

See meeting attendance schedule on page 40.

[1] *Acting Chair from 13 February 2018 to 8 May 2018.*
[2] *Appointed 8 May 2018 as member and Chair.*

The audit and risk committee report can be found on page 3 of the consolidated annual financial statements for the year ended 31 March 2018.

The audit and risk committee comprised three independent non-executive directors at year end and is primarily responsible for:
- providing independent oversight of the effectiveness of the company's assurance functions and services;
- developing a risk management policy and monitoring its implementation;
- ensuring that the group's financial performance is properly reported on and monitored, including reviewing the annual and interim accounts, results announcements, integrated annual reporting process, internal control systems and procedures, and accounting policies;
- appointing and assessing the performance of the internal auditor for the necessary skills and resources to address the complexity and volume of risks faced by the Company;
- reviewing insurance, treasury and taxation matters;
- carrying out its statutory duties as set out in section 90 of the Companies Act;
- ensuring that appropriate financial reporting procedures have been established and are operating;
- satisfying itself of the expertise and experience of the Financial Director and the Fund's finance function as set out on page 3 of the consolidated annual financial statements for the year ended 31 March 2018;
- considering the effectiveness of the internal financial controls as well as the external and internal audit functions;
- ensuring that an effective risk management process is in place to identify and monitor the management of key risks and opportunities;
- making recommendations to shareholders regarding the appointment or reappointment of the independent external auditor, following an evaluation and assessment of the external auditor and the designated audit partner, the suitability for such appointment and independence of the external auditor and audit partner;
- approving of non-audit services; and
- approving of accounting policies.

The Board has concluded that the audit and risk committee members have the necessary financial literacy, skills and experience to execute their duties effectively and make worthwhile contributions to the audit and risk committee's deliberations. The Board recommends the members for reappointment to shareholders annually.

The audit and risk committee has also considered and satisfied itself as to the appropriateness of the expertise and experience of the Financial Director, Mrs MR de Lima, and the finance function.

Non-audit services approved throughout the year include mainly the issue of statutory certificates in terms of Hospitality's loan agreements and reporting accountant work undertaken for the purpose of the impending transaction by which Hospitality has entered into agreements to acquire seven casino precinct properties from Tsogo Sun, further detail of which can be found on page 7.

The audit and risk committee meets at least quarterly. Ad hoc meetings are held to consider special business, as required. The CEO, Financial Director, external auditor, internal auditor, Tsogo Sun's Chief Financial Officer and director of risk, attend all meetings of the audit and risk committee by invitation in order to contribute pertinent insights and information.

The Board is satisfied that the audit and risk committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Key focus area addressed during the 2018 financial year
- Continued to monitor the maturing of the risk identification and risk management processes
- Assessed and reviewed an internal audit plan for the 2018 financial year
- Considered the King IV™ gap analysis and the implementation of any required measures to meet the principles of King IV™
- Recommended a treasury policy for approval by the Board

Key focus areas for the 2019 financial year
- Ensuring the appropriate accounting for new acquisitions
- Expanding the internal audit process
- Oversight of adoption of new IFRS accounting statements

Social and ethics committee

(three meetings held during the financial year)

Members at 31 March 2018

See meeting attendance schedule on page 40.

Zuko Kubukeli (Chair)
Rob Huddy (Tsogo Sun, Chief Financial Officer)
Gerald Nelson
Keith Randall

The social and ethics committee operated in line with an approved charter. The social and ethics committee oversees and reports on the following areas:

- the group's organisational ethics in line with the group's adopted code of conduct and ethics policies;
- responsible corporate citizenship, including the promotion of equality, the prevention of unfair discrimination, the environment, health and public safety, including the impact of the Company's activities and of its products or services;
- sustainable development; and
- stakeholder relationships.

The social and ethics committee draws to the attention of the Board matters within its mandate as required and reports to shareholders at the Company's AGM.

The social and ethics committee meets a minimum of twice a year. Ad hoc meetings are held to consider special business, as required. The report of the social and ethics committee can be found on page 45.

The Board is satisfied that the committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Key focus area addressed during the 2018 financial year	Key focus areas for the 2019 financial year
- Assisting the nominations committee on the adoption and implementation of a Board diversification policy, including race and gender diversity	- To assess and monitor Hospitality's B-BBEE rating under the revised codes of good practice. Information on the Company's B-BBEE rating can be found on page 45

Nomination committee

(two meetings held during the financial year)

Members at 31 March 2018

See meeting attendance schedule on page 40.

John Copelyn (Chair)
Syd Halliday
Zuko Kubukeli
Gerald Nelson

The nomination committee ensures that the Board has the appropriate composition and balance of skills for it to execute its duties effectively. It ensures that the appointment of directors is transparent and made through a formal process, which includes the identification and evaluation of potential candidates for appointment to the Board. The nominations committee considers and applies the Company's approved policy of gender and race diversity in the nomination and appointment of directors.

The nomination committee is responsible for induction and ongoing training and development of directors and succession planning.

The nomination committee meets at least once a year. Ad hoc meetings are held to consider special business, as required. The CEO attends meetings of the nomination committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The Board is satisfied that the nomination committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period.

Key focus area addressed during the 2018 financial year	Key focus areas for the 2019 financial year
- Implementation of a Board diversification policy, including race and gender diversity	- To ensure that an independent Board and committee evaluation is undertaken in the financial year

Independent acquisition committee

(five meetings held during the financial year)

Members at 31 March 2018

See meeting attendance schedule on page 40.

Gerald Nelson (Chair)
Don Bowden
Syd Halliday
Zuko Kubukeli
Zola Malinga

The independent acquisition committee was established to deal with related-party transactions. The independent acquisition committee is chaired by the lead independent non-executive director.

Ad hoc meetings are held to consider business as required.

The CEO and Financial Director attend meetings of the independent acquisition committee, or part thereof, by invitation if required to contribute pertinent insights and information.

The Board is satisfied that the independent acquisition committee has fulfilled its responsibilities in accordance with its terms of reference for the reporting period under review.

Key focus area addressed during the 2018 financial year	Key focus areas for the 2019 financial year
– Consideration and approval of the acquisition of 29 hotel properties from Tsogo Sun	– Consideration and approval of the acquisition of seven casino precincts from Tsogo Sun

Board effectiveness

An internal Board assessment was conducted subsequent to year end, the outcome of which is that the Board and its committees are operating effectively. The Board is satisfied with the performance of the CEO and the Financial Director.

An independent assessment of the Board and its committees will take place during 2019.

The Company Secretary is responsible for the statutory administration of the group and ensures compliance and provides the Board with guidance on all regulations and governance codes and policies.

The Company Secretary is not a director of the Company and ensures that Board and committee processes and procedures are implemented.

Directors have unrestricted access to the advice and services of the Company Secretary. The Board is satisfied that an arm's length relationship exists between the Board of directors, the executive team, individual directors and the Company Secretary.

The Company Secretary of the group is Rosa van Onselen (Diploma (Law), Certificate (Advanced Corporate Law and Securities) and CIS (Management and Admin)). The Board is satisfied that the Company Secretary is competent and has the appropriate qualifications and experience required by the group.

Risk and opportunity

The Company treats risk as integral to the way it makes decisions and executes its duties. The group's risk governance encompasses both the opportunities and associated risks in developing strategy and the potential positive and negative effects of such risks on the achievement of its organisational objectives. While the Board exercises ongoing oversight of risk management, the group's risk governance function is delegated to the audit and risk committee, with the responsibility for implementing and executing effective risk management delegated to management.

The group's risk management process identifies and analyses group risks (refer to page 24), sets appropriate limits and controls and monitors risks and adherence to limits. The risk management policy is in accordance with industry practice and specifically prohibits the Company from entering into any derivative transactions that are not in the normal course of Hospitality's business. The directors have overall responsibility for the group's internal control and for reviewing its effectiveness. The controls identify and manage group risks rather than completely eliminating failure. Therefore, internal controls provide reasonable, but not absolute, assurance against material misstatement or loss. The implementation and operation of these systems is the responsibility of management and processes are communicated regularly to employees informing them of their responsibilities.

Systems include strategic planning, appropriate levels of authority, segregation of duties, appointing qualified staff, regular reporting and monitoring of performance and effective control over Hospitality's investments.

Risks and opportunities are reviewed by the internal risk committee at least annually and presented to the audit and risk committee for review and allows for risks to be identified and opportunities to be prioritised according to their potential impact on the group. Responses are designed and implemented to counter the effect of the risks and to take advantage of the opportunities. Significant risks identified are communicated to the Board, together with the recommended actions.

The group's internal audit function is performed by a professional firm that reports directly to the financial director and the Chair of the audit and risk committee. Internal audit forms part of the combined assurance

framework. The internal auditor carries out risk-based audits, based on the annual internal audit plan, as approved by the audit and risk committee. The focus of internal audit in the past financial year has been on payroll and internal financial controls.

The audit and risk committee also examines and discusses with the internal auditor the appropriateness of internal controls. The audit and risk committee is satisfied with the internal audit function and that internal audit has the necessary skills and resources to address the complexity and volume of risks faced by the organisation and will continuously evaluate and review the group's internal audit function, which is at this stage appropriate for the size and activities of the group.

Hospitality's material risk and opportunities are set out on page 24.

IT governance

The Board is accountable for IT governance. Being part of the Tsogo Sun Group, a decision was taken by the Board to leverage the IT support and governance from the Tsogo Sun Group's central IT department. The IT governance charter was updated during the year and takes into account the requirements of King IV™, globally accepted standards and good practice, together with the performance and sustainability objectives of the group.

During the year, the central IT department's focus areas within Hospitality were:

- Enhancing processes in support of the King IV™ framework;
- Improving the management of IT information assets including the adoption of new technologies to enhance data protection and encryption, network security, application and environmental controls;
- Aligning business continuity and disaster recovery plans;
- Ongoing management of IT risks; and
- Enhancing cybersecurity strategy and organisational awareness.

In the coming year the group will prioritise the following:

- Strengthening relationships with key business functions and third-party service providers
- Evaluating emerging trends and potentially disruptive technologies
- Completing a data classification exercise to assist with compliance objectives
- Upgrading operating systems, databases and applications.

Although the IT function has been outsourced to a central IT department, the CEO is responsible for the ownership and execution of IT governance.

The key IT risks are integrated into the enterprise-wide risk governance and management process. Independent IT assurance reviews are conducted annually to ensure governance and policies are adhered to, laws are complied with and data is secure and protected. No major incidents occurred during the year which required remedial action and the Board is satisfied with the effectiveness of technology and information governance.

Compliance

The Board is confident that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period and that the group has established an effective framework and processes for compliance with laws, codes, rules and standards. No material contraventions were reported during the year under review.

Competition Commission

The Competition Tribunal approved the acquisition by Hospitality of ten Tsogo Sun properties, which became effective 1 September 2016, subject to certain conditions. The Board approved a policy to comply with these conditions, which stipulates that Hospitality will not provide competitively sensitive information relating to the existing hotels within its portfolio to SSH management. Hospitality will also not enforce any specific term of any existing tenants' lease agreement to the extent that it would require the disclosure of their specific individual customer details, specific arrangements with their travel agents and tour operators, their employee-specific remuneration information, specific information in relation to their supplier agreements and any confidential information, which relates exclusively to hotels operated by them and which hotels are not subject to the lease agreement between the tenant and Hospitality.

Governance of the hotel portfolio

The selection of an appropriate tenant, a hotel management company and a hotel brand best suited to a specific property, is crucial to providing a particular product, which is equipped to achieve optimum performance. In this regard, Hospitality only contracts with reputable and reliable partners. New lease agreements and any variation to such existing agreements are proposed to the Board for consideration and approval. The nature of the agreements entered into between the parties, which include the calculation of fixed and variable rentals that are based on the actual performance of the properties and align the interests of the parties. Specific performance clauses are included based on actual performance to budget. A detailed budget process is followed with each hotel annually. The hotel management companies are representatives of the tenants and take on the full operational responsibilities of the hotels. They operate within defined limits of authority and report monthly and quarterly to Hospitality management on operations, performance, marketing and strategy.

These reports are analysed by Hospitality management and properties are individually compared against STR nodal performance benchmarks. Hospitality has representation on the boards of Ash Brook Investments Proprietary Limited, the tenant of Radisson Blu Gautrain and Vexicure Proprietary Limited, the tenant of The Westin Cape Town. Hospitality is also represented on the body corporates of Kopanong Hotel and Conference Centre, Protea Hotel Victoria Junction and Radisson Blu Waterfront, the Arabella Home Owners Association and Champagne Share Block Limited.

Social and ethics committee review

In executing its duties and responsibilities, the social and ethics committee considers the monitoring factors contained in Regulation 43 of the Companies Act and the related internal controls in place.

Information on the committee's composition, its responsibilities and efforts can be found on page 42 of the report.

During the period under review, the committee considered various initiatives, policies and procedures, business processes and business and stakeholder relationships that could impact its areas of focus, which include:

1. Ethics management, compliance and anti-corruption
2. Good corporate citizenship
3. Social and economic development
4. Environmental awareness
5. Monitoring of stakeholders' relationships
6. Empowerment and transformation
7. Labour and employment

Hospitality endeavours to ensure that its ethical tone is shared and implemented by its contracted tenants and their representative hotel management companies.

Hospitality does not tolerate any form of bribery or corruption. Whistle-blowing and anti-corruption procedures are in place and stakeholders are encouraged to report, if necessary, through anonymous and independently conducted ethics hotlines, the actions and individuals who compromise or threaten the Company's values, reputation and code of ethics. Investigations are carried out and findings reported, and disciplinary, civil or criminal action is taken as and when appropriate. A dedicated ethics hotline is in place at Hospitality's head office. This ethics hotline also serves Kopanong Hotel and Conference Centre, Birchwood Hotel and OR Tambo Conference Centre. Each management company also has an ethics hotline in place for the hotel properties that it operates. The audit and risk committee provides an additional level of oversight to support the social and ethics committee in these matters. No whistle-blowing incidents were reported to the head office's ethics hotline during the period under review.

The Company aims to act responsibly and to contribute to the development of the societies in which it operates, whether it be by employing and training staff from the nearby communities, mentorships and sponsorship, donations or charitable giving, as follows:

- MCON, Hospitality's enterprise development project continues to operate at Arabella Hotel and Spa. MCON was established in 2013, to meet the requirement for clearing of alien vegetation on the Arabella Phase 2 site, in order to protect the biosphere and surrounding areas and to reduce the consumption of water by alien vegetation.
- Hospitality provided MCON with a five-year, interest-free enterprise development loan of R348 000 for company set-up costs, the purchase of a 4x4 vehicle, equipment, supplies and staff training. MCON's activities are monitored by Hospitality and ongoing support is provided in business management and finance. MCON employs its staff members from the local communities.
- Hospitality focuses on developing its future leaders and providing basic hospitality skills. The Company continues to partner with Cape Legends Inter Hotel Challenge along with Showcook, to develop the talent of chefs and sommeliers in the hospitality industry. Hospitality awarded a bursary for the most promising chef in this challenge, in the form of an online management programme with the International Hotel School at a cost of R20 000.
- The group is an integral part of the community in which it operates and is committed to building sound relationships, based on trust, honesty and fairness. Not only is environmental compliance legally obligatory, but it is also an important component of the group's commitment to the community and developing its good reputation. Hospitality therefore is dedicated to minimising the environmental impact of its activities on natural resources, having in prior years implemented various water and energy-saving programmes across its property portfolio. These include the installation of aerators in taps to reduce the cost of water and the usage of grey water for irrigation purposes. The installation, LED globes and occupancy sensors has reduced the cost and usage of energy. A reverse osmosis plant has been installed to produce potable water for The Westin Cape Town, Southern Sun Waterfront and Southern Sun Cullinan. Usage of energy and natural resources is monitored and managed by the tenants and their hotel management companies.

Healthy stakeholder relationships remain a vital contributor to the successful implementation of the Company's strategies and achievement of its objectives. Communication with its employees, shareholders and stakeholders is open and honest and without prejudice. Communication is underpinned by the group's code of ethics, code of conduct and disclosure of information policies. Refer to the section on stakeholders on page 22 of this report.

The group's employees are essential to its success and the Company is committed to treating them with dignity, trust and respect, and to build long-term relationships based on enforceable employment legislation and respect for human rights. An employee wellness programme is available free to staff for bereavement counselling, financial guidance, legal advice and mentoring.

The committee receives quarterly feedback on the status of Hospitality's B-BBEE strategy. The Company achieved a level 1 B-BBEE rating, due to the strong B-BBEE credentials of its majority shareholder. The committee reviews compliance at a hotel level with the B-BBEE Act, 53 of 2003, and the resultant achievement of suitable B-BBEE ratings, to maintain existing and secure new business.

The committee has executed its responsibilities as set out in the Companies Act and in terms of its written terms of reference. During the reporting period, the committee is not aware of any incidences of non-compliance with legislation and/or regulations.

Remuneration policy and remuneration implementation report

Remuneration philosophy

The key goals of Hospitality's remuneration philosophy is to remunerate fairly, responsibly and competitively in order to:

- Attract, reward and retain executives and staff of the requisite calibre, with the appropriate knowledge, attributes, skills and experience to allow them to add meaningful value to the Company
- Align the behaviour and performance of executives with the Company's strategic goals in the overall interests of shareholders and other stakeholders
- Promote a culture that supports initiative and innovation, with appropriate short and long-term rewards that are fair and achievable

Remuneration policy

Hospitality has aligned its grading philosophy and contracts of employment with that of its majority shareholder, Tsogo Sun.

Fair, responsible and transparent remuneration

Guaranteed pay	Short-term incentives	Long-term incentives
Basic CTC	*Annual*	Three years plus
Median level for market	*Based on financial (60% to 80%) and key performance objectives (20% to 40%)*	*Aligned to shareholder returns*

The remuneration committee approves the fixed and variable mix of remuneration structure, which differs based on the employee grade.

Basic salaries and a 13th cheque are guaranteed for employees other than executives and management, and the cost of benefits are shared between the employee and the employer on a 50:50 basis. Basic salaries for executives and management are guaranteed and are structured on a cost-to-company basis.

Hospitality seeks to remunerate responsibly, fairly and transparently and seeks to achieve a balance of short-term incentives and long-term incentives as part of a complete remuneration package that will motivate short-term returns and long-term value creation for shareholders. The combination of these components ensures that above average pay is only received for above average performance and above average sustainable shareholder returns.

Short-term incentives ('STIs')

Executives and management participate in STIs, which are based on financial targets and personal key performance objectives in a range from 80:20 to 60:40 dependent on employee grade. Executives have a larger portion of their potential total remuneration subject to the achievement of financial targets. Financial targets are weighted as follows: EBITDAR (50%) and adjusted earnings pre-LTI (50%). Key performance objectives, over which the participant has influence in order to ensure that achievement of short-term financial performance is not at the expense of future opportunities, are agreed upfront annually between the participant and his or her immediate manager.

Long-term incentives ('LTIs')

The Hospitality Employee Incentive Trust ('the Trust') was implemented in 2013. The 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. Through the Trust, tranches of B shares amounting to 1 969 710 B shares were acquired in the open market at an average cost of R5.07 each and were allocated to beneficiaries of the trust at the time, being the CEO, the FD and management. The acquisition was funded by an interest-free loan from HPF Properties Proprietary Limited, a wholly owned subsidiary of Hospitality Property Fund Limited, which loan is revalued annually based on the price of the B share at year end.

Following the capital restructure, the Trust owns 562 774 ordinary shares of no par value, of which 293 204 are issued to management and employees. No appreciation occurred between grant date and 31 March 2018. The scheme is due to expire on 30 September 2018 and Hospitality is in the process of obtaining advice on the winding up thereof.

Revised LTI

Hospitality has adopted a new share appreciation bonus scheme, based on Hospitality's existing capital structure:

- Notional shares will be allocated annually to eligible employees as agreed by the Board. Each notional share shall confer the right on the holder to be paid a share appreciation bonus equal to the difference between the fair market value of the notional share on the date on which notice is given to surrender the notional share and the fair market value of the notional share on the date on which the offer was made to an eligible employee to participate in the scheme ('the allocation date')
- The notional shares will vest on the third anniversary of their allocation date and will lapse, and accordingly not be capable of surrender for payment of a share appreciation bonus upon the sixth anniversary of their allocation date
- On settlement, the value accruing to participants will be the full appreciation of Hospitality's share price over the allocation price plus dividends declared and paid post the allocation date of the notional shares (net of corporate tax), which value will be settled in cash
- On 1 April 2018, 801 687 appreciation shares were granted to eligible employees under the new share appreciation bonus scheme at an allocation price of R11.85. These appreciation shares vest on 31 March 2021 and will expire on 31 March 2024

Prior to adopting the new Hospitality share appreciation bonus scheme, executives and management of Hospitality, according to their employee grade, participated in the Tsogo Sun share appreciation bonus plan (FY2018), which provides for notional Tsogo shares which vest on the third anniversary of their allocation date and which will lapse by the sixth anniversary of their allocation date:

- On settlement, the value accruing to participants will be the full appreciation of Tsogo's share price over the allocation price plus dividends declared and paid post the allocation date of the notional shares, which value will be settled in cash
- On 1 April 2017, 321 430 Tsogo notional appreciation shares were granted to employees at an allocation price of R28.00. These notional appreciation shares will vest on 31 March 2020 and will expire on 31 March 2023
- On 1 October 2017, an exceptional allocation of 24 190 Tsogo notional shares was made to a member of HPF Management. The notional appreciation shares will vest on 30 September 2020.

Remuneration implementation report

Executive directors' service contracts

The CEO and FD are both full-time salaried employees of HPF Management, a wholly owned subsidiary of Hospitality. Their employment contracts are subject to three months' notice periods, contain no restraint of trade clauses and have no specific contractual conditions related to termination.

Non-executive directors' terms of appointment

Non-executive directors are not subject to any other fixed terms of employment other than the conditions contained in the Company's MOI and, as such, no service contracts have been entered into with the Company. Hospitality's remuneration mix for non-executive directors consists of either:

- a basic annual fee for Board, audit and risk committee and social and ethics committee membership
- a per meeting attendance fee for members of the nomination and remuneration committee

Non-executive directors' fees are approved in advance by shareholders by special resolution at the Company's AGM.

No share options or other incentive awards geared to share price or corporate performance are made to non-executive directors.

Directors' emoluments

	2018			2017				
	KG Randall	**MR de Lima**	**Total**	KG Randall	MR de Lima	VM Joyner#	R Erasmus*	Total
Salaries	**2 479**	**1 514**	**3 993**	574	660	1 425	730	3 389
Benefits	**291**	**403**	**694**	76	240			316
Current year STI accrued	**449**	**323**	**772**	165	395	569	115	1 244
Fair value of cash-based LTI on award date	**687**	**382**	**1 069**	–	–	–	–	–
Termination costs	**–**	**–**	**–**	–	–	5 787	–	5 787
Total single figure of remuneration	**3 906**	**2 622**	**6 528**	815	1 295	7 781	845	10 736
Fair value of cash-based LTI on award date	**(687)**	**(382)**	**(1 069)**	–	–	–	–	–
Settlement of cash-based LTI	**1 198**	**244**	**1 442**	–	–	–	–	–
Financial statement remuneration	**4 417**	**2 484**	**6 901**	815	1 295	7 781	845	10 736
Current year STI not settled	**(449)**	**(323)**	**(772)**	(165)	(395)	–	(115)	(675)
Prior year STI settled	**165**	**395**	**560**	–	–	2 700	973	3 673
Total cash equivalent value of remuneration	**4 133**	**2 556**	**6 689**	650	900	10 481	1 703	13 734

** Prescribed officer.*

 # Subsequent to the Tsogo Sun transaction, whereby Tsogo acquired a controlling stake in Hospitality, effective on 1 September 2016 and as announced on SENS on 21 September 2016, in line with the change of control clause contained in the previous CEO's contract of employment, his term as CEO and as a member of the Board of Hospitality was terminated by the Board with effect from 31 December 2016.

Achievement of STIs in FY2018	Financial score %	Strategic score %	Total score %	Bonus accrued (R'000)
KG Randall	0	16	16	449
MR de Lima	0	20	20	323

STIs are paid in May each year.

STIs reflect a balance between annual financial performance and other specific strategic priorities over which the participant has influence in order to ensure that achievement of short-term financial performance is not at the expense of future opportunities. Performance is apportioned at 80% for the CEO and 75% for the FD and is measured at EBITDAR (weighted 50%) and adjusted earnings (weighted 50%) against budget to ensure that both trading and profit post the financing cost of capital allocation decisions are considered. The CEO has 20% and the FD 25% of the potential award based on the achievement of non-financial strategic priorities.

The following table reflects the liability for LTIs and summarises details of the appreciation shares awarded to participants for the financial year and their expiry dates:

LTI allocation in FY2018	Number of appreciation shares	Issue price	Market price at 31 March 2018	Shares vesting date[1]
KG Randall	160 714*	R28.00	R23.33	31 March 2020
MR de Lima	89 286#	R28.00	R23.33	31 March 2020
HPF Management	71 428	R28.00	R23.33	31 March 2020

[1] *An exceptional allocation of shares (24 190) was made to a member of HPF Management on 1 October 2017, which will vest on 30 September 2020.*

Grant date	Appreciation shares granted and still outstanding		Strike price[1]	Appreciation shares vested and still outstanding		Fair value of award on grant date[1]	Expiry date	Liability	
	2018	2017		**2018**	2017			**2018**	2017
Keith Randall									
1 April 2013	**122 150**	122 150	R24.56	**122 150**	122 150	360 824	31 March 2019	**680 376**	861 158
1 April 2014	**97 201**	97 201	R25.72	**97 201**	97 201	327 723	31 March 2020	**350 896**	494 753
1 April 2015	**94 198**	94 198	R26.54	**–**	–	329 426	31 March 2021	**178 976**	212 259
1 April 2016	**109 553**	109 553	R22.82	**–**	–	399 215	31 March 2022	**343 996**	226 044
1 April 2017*	**160 715**	–	R28.00	**–**	–	686 733	31 March 2023	**–**	–
								1 554 244	1 794 214
Mara de Lima									
1 April 2013	**20 358**	20 358	R24.56	**20 358**	20 358	60 136	31 March 2019	**113 394**	143 524
1 April 2014	**29 160**	29 160	R25.72	**29 160**	29 160	98 316	31 March 2020	**105 268**	148 424
1 April 2015	**28 260**	28 260	R26.54	**–**	–	98 830	31 March 2021	**53 694**	63 679
1 April 2016	**43 821**	43 821	R22.82	**–**	–	159 685	31 March 2022	**137 598**	90 417
1 April 2017#	**89 286**	–	R28.00	**–**	–	381 518	31 March 2023	**–**	–
								409 954	446 045

[1] *Calculated using a Black Scholes model at grant date as there are no performance conditions.*

LTIs are cash-settled, resulting in no dilutionary impact to shareholders. The notional appreciation shares issued to executive directors and management on 1 April 2017 are based on the Tsogo Sun share price and the Tsogo Sun share scheme. The notional appreciation shares are based on a three-year vesting period equivalent to a factor of their respective cost of company and the price is determined on the volume weighted average trading price of Tsogo Sun's share ('TSH') prior to the date of issue. Refer to note 26 of the consolidated annual financial statements for further information.

Non-executive

2018

	Directors' fees R'000	Consulting fees R'000	Total R'000
JA Copelyn	378	–	378
L de Beer•	348	–	348
DG Bowden	355	–	355
ZN Malinga	352	–	352
SA Halliday	338	–	338
GA Nelson	296	–	296
ZN Kubukeli	307	–	307
WC Ross•	121	–	121
MN von Aulock•	127	–	127
J Booysen	134	–	134
L McDonald	242	–	242
ZJ Kganyago	242	–	242
JR Nicolella	242	–	242
	3 482	–	3 482

Fees are exclusive of VAT.

• *Resigned prior to 31 March 2018.*

2017

	Directors' fees R'000	Consulting fees R'000	Total R'000
JA Copelyn	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	113	–	113
L McDonald	113	–	113
ZJ Kganyago	113	–	113
JR Nicolella	113	–	113
	2 290	177	2 467

Voting results at the 2017 AGM

The results of the non-binding advisory endorsement of the Company's remuneration policy and remuneration implementation report at the AGM on 19 October 2017 were 80.06% and 81.36% in favour respectively. In the event that the remuneration policy or remuneration implementation report, or both, are voted against by more than 25% of the votes cast at any AGM of the Company, the group will engage with dissenting shareholders within 30 days of the AGM, to address all legitimate and reasonable objections and concerns.

Non-executive directors' fee for approval by shareholders

The increase in non-executive directors' fees for FY2018 was approved by shareholders at the 2017 AGM at a maximum of 8%, subject to Board approval. The Board approved, on recommendation by the remuneration committee, an inflationary increase to all non-executive directors' fees for FY2018 of 6%.

Following a comparison to market, shareholders will be requested at the Company's 2018 AGM to grant the Board the necessary authority to increase directors' fees for the period 1 April 2019 to 31 March 2020 up to a maximum of 12%. The motivation for this mandate is set out on page 56 of the AGM notice.

Shareholders approved an hourly ad hoc fee of R1 750 for non-executive directors for special assignments or additional work requested by the Board. This fee is only payable if time in excess of 20 hours per non-executive director, per annum, is spend on any special assignment or additional work. Shareholders are requested to increase the hourly ad hoc fee to R1 995 at the Company's AGM on 18 October 2018. Details can be found on page 57 of the AGM notice.

Notice of annual general meeting of shareholders

Hospitality Property Fund Limited

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

Notice is hereby given to shareholders of the Company that the annual general meeting ('AGM') of the Company will be held at Palazzo Towers East, Montecasino Boulevard, Fourways on Thursday, 18 October 2018 at 09:00 to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ('the Companies Act'), as read with the Listings Requirements of the JSE Limited ('the JSE Listings Requirements').

Section 63(1) of the Companies Act: Identification of meeting participants

Meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a meeting. Forms of identification that will be accepted include original and valid identity documents, drivers' licences and passports.

Record dates

In terms of sections 59(1)(a) and (b) of the Companies Act, the directors have determined that the date on which a shareholder must be registered in the Company's register of shareholders in order to:

- receive notice of the AGM is Friday, 17 August 2018; and
- participate in and vote at the AGM is Friday, 12 October 2018.

The last day to trade in order to be registered in the Company's register of shareholders to be able to participate in and vote at the AGM will therefore be Tuesday, 9 October 2018.

Voting requirements

All ordinary resolutions will, in terms of the Companies Act, require support of more than 50% of the voting rights of shareholders, in their capacity as shareholders, exercised thereon, to be approved. All special resolutions will, in terms of the Companies Act, require support of at least 75% of the total voting rights of shareholders, in their capacity as shareholders, exercised thereon at the meeting, to be approved.

1. Ordinary resolution number 1: Receipt and adoption of annual financial statements and reports

"Resolved that the audited annual financial statements of the Company, together with the reports of the directors, the independent auditors and the audit and risk committee for the period ended 31 March 2018 as tabled at the meeting be and are hereby adopted."

The Company's social and ethics report, which deals with matters within its mandate, is included on page 45. Any specific questions to the social and ethics committee may be addressed to the Company Secretary prior to the meeting at rosao@hpf.co.za.

2. Ordinary resolution number 2: Election and re-election of the Company's directors by separate resolutions

2.1 Ordinary resolution number 2.1

"Resolved that Mr JA Copelyn, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company."

2.2 Ordinary resolution number 2.2

"Resolved that Mr MSI Gani, who was appointed by the Board to serve as an independent non-executive director of the Company with effect from 8 May 2018 and who is eligible and available for election, is elected as an independent non-executive director of the Company."

2.3 Ordinary resolution number 2.3

"Resolved that Mr ZN Kubukeli, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as an independent non-executive director of the Company."

2.4 Ordinary resolution number 2.4

"Resolved that Mr JR Nicolella, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a non-executive director of the Company."

2.5 Ordinary resolution number 2.5

"Resolved that Mr SA Halliday, who retires by rotation in terms of the memorandum of incorporation of the Company, which provides for any director who is 70 (seventy) years or older to retire annually at the AGM and who is eligible and available for re-election, is re-elected as an independent non-executive director of the Company."

2.6 Ordinary resolution number 2.6

"Resolved that Mr MH Ahmed, who was appointed by the Board to serve as an independent non-executive director of the Company with effect from 14 August 2018 and who is eligible and available for election, is elected as an independent non-executive director of the Company."

Reason for ordinary resolution number 2: Election and re-election of directors at the AGM

In accordance with the Company's memorandum of incorporation, one-third of the Company's directors are required to retire at each AGM and may offer themselves for re-election. In addition, any director who is 70 years or older shall retire annually and any director appointed by the Board, must be approved by shareholders at the next AGM.

The nomination committee has considered the past performance and contribution to the Company of the directors standing for re-election and recommends to shareholders that they be re-elected.

Abridged *curricula vitae* of each of the directors standing for election and re-election appear below:

John Anthony Copelyn (68)
Chair, non-executive director
BA (Hons), BProc
Date of appointment: 1 September 2016

John was appointed as Chair of Hospitality effective 30 November 2016. John joined Hosken Consolidated Investments Limited as Chief Executive Officer in 1997. He was previously General Secretary of the Southern African Clothing and Textile Workers Union from 1974, before becoming a member of Parliament in 1994. He currently holds various directorships and is the non-executive Chair of Tsogo Sun Holdings Limited, Niveus Investments Limited and eMedia Holdings Limited. John is a member of the nominations and remuneration committees.

Committee membership: Nominations (Chair); Remuneration

Mahomed-Salim Ismail Gani (65)
Independent non-executive director
CA(SA)
Date of appointment: 8 May 2018

Mr Gani is a Chartered Accountant (SA) with over 30 years' experience in the accounting and audit profession. He was a founding partner of MSGM Masuku Jeena Inc., a partner of Saboor Gani & Co and a partner of PricewaterhouseCoopers until 2013. He is a non-executive director on a number of boards including Hosken Consolidated Investments Limited, Tsogo Sun Holdings Limited, Dis-Chem Pharmacies Limited and Basil Read Holdings Limited. He also serves as a member of the investigating committee of the Independent Regulatory Board of Auditors.

Committee membership: Audit and risk

Zuko Ntsele Kubukeli (45)
Independent non-executive director
PhD (Human Biology) (UCT), BSc (Medicine) (Hons) (UCT), BSc (Biochemistry and Microbiology) (UCT)
Date of appointment: 27 June 2008

Zuko was a Regional Property Manager of Atlas Property Services Proprietary Limited, the management company of the listed property loan stock company, Atlas Properties Limited, prior to which he was an executive director of Brait Specialised Funds. Zuko is the executive director – strategy and acquisitions, of Pan-African Capital Holdings Proprietary Limited and a Principal and Chief Executive Officer of Pan-African Private Equity Fund One and Two. He was appointed to the Board of Hospitality in June 2008.

Committee membership: Nominations; Social and ethics (Chair)

James Robert (Rob) Nicolella (49)
Non-executive director
CA(SA), PLD
Date of appointment: 1 September 2016

Rob joined Hosken Consolidated Investments Limited ('HCI') in 2011. Rob serves on the boards of subsidiary companies Business Systems Group Africa Proprietary Limited and group associate company Impact Oil and Gas Limited. Prior to joining HCI he was employed by Investec Bank Limited for 17 years, most notably in the capacity as Head of Corporate Banking, Western Cape, and subsequently Head of Private Banking, Western Cape.

Sydney (Syd) Arnold Halliday (71)
Independent non-executive director
CAIB (SA), ACIS
Date of appointment: 30 June 2013

Syd retired from Nedbank in 2004 where he had held various senior credit risk management positions in the property finance departments of Nefic, Syfrets, Nedcor Investment Bank and Nedbank. Syd served as the independent Chair of Nedbank Corporate Property Finance's main property lending committee up to December 2012. He joined the Board of Hospitality on 30 June 2013 He also serves on the board of Dipula Income Fund Limited and consults to Rand Merchant Bank as a member of its real estate credit committee and Sasfin Bank in its real estate private equity fund.

Committee membership: Audit and risk; nominations

Mohamed Haroun Ahmed (53)
Independent non-executive director
BCom (Accounting)
Date of appointment: 14 August 2018

With 25 years of experience in finance and leadership, Mohamed is a businessman who has served on the boards of various listed companies, including as an alternate director for MTN Group Limited. He is currently an independent non-executive director for both Montauk Holdings and Deneb Investments, where he also serves as the Chair of the audit, risk and remuneration committees and is the founder of the Gallagher Charitable Trust. Mohamed was appointed to the Board on 14 August 2018.

3. Ordinary resolution number 3: Reappointment of the external auditor and individual designated partner

"Resolved that PricewaterhouseCoopers Inc. be reappointed as the Company's independent external auditor and AG Taylor as the registered audit partner (to report on the financial year ending 31 March 2019)."

Reason for ordinary resolution number 3: Reappointment of external auditor

PricewaterhouseCoopers Inc. ('PwC') has indicated its willingness to continue in office and ordinary resolution number 3 proposes PwC's reappointment as the Company's independent external auditor.

In terms of section 90(1) of the Companies Act, each year at its AGM, the Company must appoint an auditor who complies with the requirements of section 90(2) of the Companies Act. The Company's audit and risk committee has considered PwC's independence in accordance with the Companies Act and is satisfied that PwC is independent as contemplated by the Companies Act and the applicable rules of the International Federation of Accountants ('IFAC'). The audit and risk committee can therefore recommended PwC for appointment as the registered external auditor of the Company until the next AGM, subject to shareholder approval as required in terms of section 90(1) of the Companies Act.

Furthermore, the Company's audit and risk committee has, in terms of paragraphs 3.84(g)(iii) and 3.86 of the JSE Listings Requirements, considered and satisfied itself that PwC, the reporting accountant and individual auditor, are accredited and appear on the JSE's list of Accredited Auditors in compliance with section 22 of the JSE Listings Requirements and are suitable for appointment.

4. Ordinary resolution number 4: Election and re-election of the members of the audit and risk committee by separate resolutions

4.1 Ordinary resolution number 4.1: Election of Mr MSI Gani as a member and the Chair of the audit and risk committee

"Resolved that Mr MSI Gani, being an independent, non-executive director of the Company, be elected as a member and chair of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to his re-election as a director in terms of ordinary resolution number 2.2."

4.2 Ordinary resolution number 4.2: Re-election of Mr DG Bowden as a member of the audit and risk committee

"Resolved that Mr DG Bowden, being an independent, non-executive director of the Company, be re-elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act)."

4.3 Ordinary resolution number 4.3: Re-election of Mr SA Halliday as a member of the audit and risk committee

"Resolved that Mr SA Halliday, being an independent, non-executive director of the Company, be re-elected as a member of the audit and risk committee of the Company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), subject to his re-election as a director in terms of ordinary resolution number 2.5."

Reason for ordinary resolution number 4: Election and re-election of the members of the audit and risk committee

In terms of the Companies Act and King IV™, the audit and risk committee is a committee of the Board elected by the shareholders at each AGM. In terms of the regulations to the Companies Act, at least one-third of the members of a company's audit and risk committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

The Company's Board, having satisfied itself, among others, of the independence, qualifications, experience and expertise of the independent non-executive directors offering themselves for election as members of the Company's audit and risk committee, recommends their election and re-election to shareholders.

5. Ordinary resolution number 5: General authority to directors to allot and issue authorised but unissued shares

"Resolved that, to the extent required by and subject to the memorandum of incorporation of the Company, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the directors are, as a general authority and approval, authorised, as they in their discretion think fit, to allot and issue the authorised but unissued ordinary shares in the Company to such person(s) and upon such terms and conditions as the directors may determine, on the following bases:

5.1 the directors may allot and issue the authorised but unissued ordinary shares in the Company as consideration for the acquisition by the Company or any of its subsidiaries, of immovable property or for shares in and/or loan accounts against companies owning immovable property for the purpose of acquiring such property;

5.2 the directors are not authorised to issue more ordinary shares in aggregate in any one financial year than such number of ordinary shares that constitute 10% of the Company's issued share capital as at the date of the passing of this resolution (the determination of which shall exclude any specific issue of shares approved by shareholders in their capacity as shareholders);

5.3 the maximum discount at which ordinary shares may be issued in terms of this authority is 10% of the weighted average trade price on the JSE of the ordinary shares measured over 30 business days prior to the date that the issue is authorised by the directors of the Company; or 10% of the weighted average traded price on the JSE of the relevant shares measured over 3 days prior to the date of issue. Where the allotment or issue is undertaken in terms of a vendor consideration placement pursuant to the JSE Listings Requirements, the minimum placing price is subject to the pricing limitations set out in the JSE Listings Requirements; and

5.4 this authority shall only be valid until the next AGM of the Company but shall not endure beyond a period of 15 months from the date of this meeting."

Reason for ordinary resolution number 5: General authority to directors to allot and issue authorised but unissued shares
In terms of the Company's memorandum of incorporation, shareholders may authorise the directors to allot and issue authorised but unissued shares as the directors in their discretion think fit, but at all times subject to the Companies Act.

The number of shares to be allotted and issued are limited, as set out in the above resolution. The directors consider it advantageous to approve this authority to enable the Company to take advantage of any business opportunities that may arise in future. Being able to act promptly on such opportunities through the issue of shares as whole or part consideration for the acquisition of property or shares in a company owning property, puts the Company in an advantageous position at the time of negotiations.

6. Non-binding advisory endorsement of the remuneration policy

"To endorse, through a non-binding advisory vote, the Company's remuneration policy as set out on page 46."

Reason for endorsement of the remuneration policy
In terms of King IV™ recommendations and the JSE Listings Requirements, the Company's remuneration policy should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable shareholders to express their views on the remuneration policies adopted by the Company.

Should 25% or more shareholders vote against the remuneration policy, the Company undertakes to invite such dissenting shareholders to engage with the Company in order to ascertain the reasons therefor and to address legitimate and reasonable objections and/or concerns.

7. Non-binding advisory endorsement of the remuneration implementation report

"To endorse, through a non-binding advisory vote, the Company's remuneration implementation report with regard to the remuneration of executive directors as set out on page 47."

Reason for endorsement of the remuneration implementation report
In terms of King IV™ recommendations, the Company's remuneration implementation report should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable shareholders to express their views on the Company's remuneration implementation report.

Should 25% or more shareholders vote against the remuneration implementation report the Company undertakes to invite such dissenting shareholders to engage with the Company in order to ascertain the reasons therefor and to address legitimate and reasonable objections and/or concerns shareholders.

8. Special resolution number 1: Non-executive directors' remuneration for the period 1 April 2019 to 31 March 2020

At the Company's AGM held on 19 October 2017, shareholders approved a maximum increase of 8% to the remuneration of non-executive directors of the Company, for their services as directors, for the period 1 April 2018 to 31 March 2019, subject to Board approval. The Board, on recommendation by the remuneration committee agreed to a 6% inflationary increase for the period 1 April 2018 to 31 March 2019 as set out below:

Approval is now sought for the Board to increase non-executive directors' fees for the period 1 April 2019 to 31 March 2020, by up to a maximum of 12%.

"Resolved that, in terms of the Company's memorandum of incorporation and sections 66(8) and 66(9) of the Companies Act, the payment of the remuneration of the non-executive directors of the Company, for their services as directors, for the period 1 April 2019 to 31 March 2020, unless amended by a special resolution of shareholders, be equal to the non-executive directors' remuneration for the period 1 April 2018 to 31 March 2019, escalated as approved by the Board of the Company, by up to a maximum of 12%."

Reason for special resolution number 1: Non-executive directors' remuneration for the period 1 April 2019 to 31 March 2020
The reason and effect of special resolution number 1 is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company for the period 1 April 2019 to 31 March 2020 in accordance with sections 66(8) and 66(9) of the Companies Act. The proposed special resolution excludes value added tax ('VAT'), which will be added by directors in accordance with current VAT legislation, where applicable. Following a comparison to small cap JSE listed companies in the Financial Services sector, which includes Real Estate and Investment companies, set out in the PWC non-executive directors' practices and fees trends report, 11th edition, January 2018, Hospitality's directors' fees were below that of the median level. On average, Hospitality's directors' fees have increased annually by 6.5% with the average director's fee increasing across all sectors of the JSE by 9%.

In order to bring directors' fees in line with the market, shareholders are requested to approve a maximum increase of up to 12%, subject to Board approval. The fees, in the event that a 12% increase is applied for the period 1 April 2019 to 31 March 2020, are set out in the table below:

	Fees for the period 1 April 2018 to 31 March 2019		Maximum fees for the period 1 April 2019 to 31 March 2020, assuming a 12% increase	
	Chair Rand	Member Rand	Chair Rand	Member Rand
Board (per annum)	384 120	256 080	430 214	286 810
Audit and risk committee (per annum)	160 000	102 450	179 200	114 744
Nomination committee (per meeting, assuming two per annum)	16 650	14 090	18 637	15 781
Remuneration committee (per meeting, assuming two per annum)	16 650	14 090	18 637	15 781
Social and ethics committee (per annum)	27 530	21 780	30 834	24 394

9. Special resolution number 2: Increase to the hourly ad-hoc fee for non-executive directors

"Resolved that, in terms of the Company's memorandum of incorporation and sections 66(8) and 66(9) of the Companies Act, the agreed hourly ad hoc fee of R1 750, as agreed by shareholders at the 2015 annual general meeting and which is payable to non-executive directors, who may be requested by the Board to perform any special assignment or additional work, to which a director will dedicate time and effort, substantially in excess of what he/she would ordinarily dedicate to the Company in order to executive his/her duties as a member of the Board or a committee, be increased to R1 995. Such ad hoc fee will be calculated on actual hours spent on any special assignment or additional work, less 20 hours per non-executive director, per annum, which is deemed to be a reasonable time spent on unanticipated matters arising."

Reason for special resolution number 2: Increase to the hourly ad-hoc fee for non-executive directors

The reason and effect of special resolution number 2 is to obtain shareholder approval for the increase to the hourly rate of ad hoc fees to remunerate any non-executive director for his/her time and effort spent on any special assignment or additional work, as requested by the Board, in excess of what he/she would ordinarily dedicate to the Company in order to execute his/her duties as a member of the Board or a committee. The increased hourly fee is based on the increase applied to non-executive directors' fees in FY2016 and FY2017 of 7% and 6.5% respectively. The ad-hoc fee will be calculated per director, on actual hours spent, less 20 hours per annum, which is deemed to be a reasonable time spent by any one director, on unanticipated matters arising. Ad hoc fees are disclosed annually in Hospitality's consolidated financial statements. No ad hoc fees were paid to any non-executive director during FY2018.

10. Special resolution number 3: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act

"Resolved that, to the extent required by the Companies Act, the Board may, subject to compliance with the requirements of the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company for any purpose or in connection with any matter including, but not limited to, the subscription of any option or any shares issued or to be issued by the Company or a related or inter-related company or entity, or for the purchase of any shares of the Company or a related or inter-related company or entity, including any direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act, on such terms and conditions as the Board may determine, such authority to endure until the next AGM of the Company to be held in 2019."

Reasons for special resolution number 3: Authority to provide financial assistance to subsidiaries and other related and inter-related entities

The Company requires the ability to provide financial assistance to related or inter-related persons and entities, such as its subsidiaries, if necessary, in accordance with section 45 of the Companies Act. Under sections 44 and 45 of the Companies Act, the Company will, however, require a special resolution to be adopted before such financial assistance may be provided. In the circumstances and in order to, among others, ensure that the Company's related and inter-related companies and entities have access to financing and/or financial backing from the Company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution number 3.

11. Special resolution number 4: General authority to acquire shares

"Resolved that the Company and/or a subsidiary of the Company is authorised by way of a general authority to repurchase or purchase, as the case may be, ordinary shares issued by the Company, from any person, upon such terms and conditions and in such number as the directors of the Company or the subsidiary may from time to time determine, subject to the applicable requirements of the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time on the following bases:

- each repurchase of shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
- the repurchase or purchase, as the case may be, by the Company and/or any of its subsidiaries, of shares in the Company of any class under this authority shall not, in aggregate in any one financial year, exceed 20% of the Company's issued share capital as at the commencement date of such financial year;
- repurchases of ordinary shares may not be made at a price greater than 10% above the weighted average of the market value of ordinary shares for the five business days immediately preceding the date on which the repurchase is effected (the maximum price). The JSE will be consulted for a ruling if the Company's shares have not traded in such a five-business day period;
- repurchases of ordinary shares by the Company or its subsidiaries may not take place during a prohibited period as defined in the JSE Listings Requirements, unless the Company has in place a repurchase programme where the dates and quantities of ordinary shares to be traded are fixed (not subject to any variation) and full details of the programme have been disclosed in writing to the JSE prior to the commencement of the prohibited period;
- the Company shall release an announcement on SENS as soon as it or its subsidiary has, on a cumulative basis purchased or repurchased ordinary shares, which constitute 3% of the number of ordinary shares in issue (at the time that this authority from shareholders for the repurchase was granted), and for each 3% in aggregate of such number of ordinary shares purchased or repurchased, as the case may be, thereafter;
- this general authority shall be valid only until the next AGM of the Company to be held in 2019, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- at any point in time, the Company may only appoint one agent to effect any repurchases on the Company's behalf;
- the number of ordinary shares purchased and held by a subsidiary or subsidiaries of the Company shall not exceed 10% in the aggregate of the number of issued shares in the Company at the relevant times;
- no voting rights attached to ordinary shares acquired by the Company's subsidiaries may be exercised while the ordinary shares are held by them and they remain subsidiaries of the Company;
- a resolution has been passed by the Board of the Company confirming that it has authorised the general repurchase, that the Company and its subsidiaries will satisfy the solvency and liquidity test immediately after the repurchase of ordinary shares and that since the test was done there have been no material changes to the financial position of the group; and
- any such general repurchase will be subject to Exchange Control Regulations if applicable."

Reason for special resolution number 4: General authority to acquire shares

The reason for special resolution number 4 is to grant the Board a general authority for the acquisition of the Company's shares by the Company, or by a subsidiary or subsidiaries of the Company.

Having considered the effect of acquisition of the Company's shares up to a maximum limit, the directors of the Company are of the opinion that, if such acquisitions were implemented:

- the Company and the group are in a position to repay their debt in the ordinary course of business for a period of 12 months after the date of the notice of the meeting;
- the Company and the group's assets will be in excess of the liabilities of the Company and the group for a period of 12 months after the date of the notice of the meeting. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the group for the year ended 31 March 2018 which comply with the Companies Act;
- the share capital and reserves of the Company and the group will be adequate for the ordinary business purposes of the Company and the group for a period of 12 months following the date of the notice of the meeting; and
- the available working capital of the Company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the meeting.

Statement of the Board's intention

Although there is no immediate intention to effect a repurchase of shares of the Company, the Board believes that it should retain flexibility so that the directors may utilise the general authority to repurchase shares as and when suitable opportunities present themselves and which opportunities may require immediate action.

Other disclosure in accordance with section 11.26 of the JSE Listings Requirements

The following additional information, some of which may appear elsewhere in the integrated annual report ('IAR'), is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- major shareholders – pages 52 and 53 of the consolidated annual financial statements;
- share capital of the Company – page 28 of the consolidated annual financial statements.

Directors' responsibility statement

The directors, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all information required by law and the JSE Listings Requirements.

Material change statement

Apart from the impending transaction as mentioned on page 7, as at Thursday, 16 August 2018, being the last practicable date before the finalisation of this notice, there have been no material changes in the financial or trading position of the Company and its subsidiaries that have occurred between 31 March 2018 and 14 August 2018 other than the facts and developments as reported on in the IAR of the Company for the financial year ended 31 March 2018.

Electronic participation

Should any shareholder (or a representative or proxy for a shareholder) wish to participate in the AGM by way of electronic participation, that shareholder should make an application in writing (including details as to how the shareholder or its representative (including its proxy) can be contacted) to so participate, to the Company Secretary at rosao@hpf.co.za or to the registered address of the Company, to be received by the Company Secretary at least seven business days prior to the meeting, being Tuesday, 9 October 2018. Such application should include relevant contact details, including an email address, cellular number and landline number, as well as full details of the shareholder's title to shares issued by the Company and proof of identity, in the form of certified copies of identity document and share certificates (in the case of certificated shares) and (in the case of dematerialised shares) written confirmation from the shareholder's Central Securities Depository Participant ('CSDP') confirming the shareholder's title to the dematerialised shares. The cost of electronic participation will be borne by the shareholder concerned.

Shareholders who wish to participate in the AGM by electronic participation must note that they will not be able to vote by way of electronic participation. Such shareholders, should they wish to have their vote counted must, to the extent applicable, complete the form of proxy or contact their CSDP or broker.

Proxies, authority for representatives to act and voting

Shareholders who are entitled to attend, participate in and vote at the AGM, are entitled to appoint a proxy (or more than one proxy in respect of different shareholders held by them) to attend, speak and vote in their stead. A proxy need not be a shareholder of the Company and shall be entitled to vote on a show of hands or a poll. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith to be completed by them in their capacity as shareholders.

The enclosed form of proxy is only to be completed by those shareholders who are:
- holding shares in certificated form; or
- recorded on the Company's sub-register in dematerialised electronic form with 'own name' registration.

It is recommended that forms of proxy be completed and delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, by no later than 09:00 on Tuesday, 16 October 2018 for administrative purposes. If shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration, and who are entitled to attend, participate in and vote at the AGM, do not deliver forms of proxy to the transfer secretary by the relevant time, such shareholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the shareholders' rights at the AGM, in accordance with the instructions therein, with the Chair of the AGM. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, participate in and vote in person at the AGM should the shareholder decide to do so.

All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the AGM should contact their CSDP or broker:
- to provide them with the necessary letter of representation in order to attend the AGM; or
- to furnish the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

These shareholders must not use a form of proxy.

A company that is a shareholder wishing to attend and participate at the AGM should ensure that a resolution authorising a representative to so attend and participate at the AGM on its behalf is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.

Every shareholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll, every shareholder present in person or represented by proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of all the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the Company.

By order of the Board

LR van Onselen
For HPF Management Proprietary Limited
Company Secretary

14 August 2018

Form of proxy

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

This form of proxy is for use by shareholders registered as such who hold certificated shares in the Company and shareholders who hold 'own name' dematerialised shares in the Company, to appoint a proxy or proxies for the AGM of the Company to be held at 09:00 on Thursday, 18 October 2018 at Palazzo Towers East, Montecasino Boulevard, Fourways, or any adjournment or postponement thereof.

Shareholders who have dematerialised their shares in the Company and do not have 'own-name' registration, must inform their Central Securities Depository Participant ('CSDP') or broker if they wish to attend the AGM in person and must request their CSDP or broker to issue them with the necessary letters of representation authorising them to attend in person, alternatively, they must provide their CSDP or broker with their voting instructions should they not wish to attend the AGM in person. Such dematerialised shareholders must not return this form of proxy to the transfer secretaries.

It is recommended that forms of proxy be completed and delivered to the transfer secretaries, Computershare Investor Services Proprietary Limited, to be received by 9:00 on Tuesday, 16 October 2018.

I/We (name/s in BLOCK LETTERS) _____

of (address) _____

being the registered holder/s of _____ ordinary shares, hereby appoint:

1. _____ or failing him/her,

2. _____ or failing him/her,

3. the Chair of the AGM, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the AGM of the Company and at any adjournment thereof in respect of the ordinary share registered in my/our name/s, as follows:

Resolutions	For	Against	Abstain
Ordinary resolution number 1: Receipt and adoption of annual financial statements and reports			
Ordinary resolution number 2.1: Re-election of Mr JA Copelyn as a non-executive director			
Ordinary resolution number 2.2: Election of Mr MSI Gani as an independent non-executive director			
Ordinary resolution number 2.3: Re-election of Mr ZN Kubukeli as an independent non-executive director			
Ordinary resolution number 2.4: Re-election of Mr JR Nicolella as a non-executive director			
Ordinary resolution number 2.5: Re-election of Mr SA Halliday as an independent non-executive director			
Ordinary resolution number 2.6: Election of Mr MH Ahmed as an independent non-executive director			
Ordinary resolution number 3: Reappointment of the external auditor and individual designated partner			
Ordinary resolution number 4.1: Election of Mr MSI Gani as a member and Chair of audit and risk committee			
Ordinary resolution number 4.2: Re-election of Mr DG Bowden to the audit and risk committee			
Ordinary resolution number 4.3: Re-election of Mr SA Halliday to the audit and risk committee			
Ordinary resolution number 5: General authority to directors to allot and issue shares			
Advisory endorsement 1: Non-binding advisory endorsement of the remuneration policy			
Advisory endorsement 2: Non-binding advisory endorsement of the remuneration implementation report			
Special resolution number 1: Approval of non-executive directors' remuneration			
Special resolution number 2: Increase to the hourly ad hoc fee for non-executive directors			
Special resolution number 3: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act			
Special resolution number 4: General authority to acquire shares			

Signed at _____ on _____ 2018

Signature(s) _____

Assisted by (where applicable) _____

Name _____ Capacity _____

Signature _____

Please read notes overleaf.

Notes to the form of proxy

and summary of rights under section 58 of the Companies Act, 2008

1. Only shareholders who are registered in the register of the Company under their own name may complete a form of proxy or attend the annual general meeting ('AGM'). This includes shareholders who have not dematerialised their shares or who have dematerialised their shares with 'own name' registration. A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint one individual as a proxy to attend, speak and, on a poll, to vote in his/her place at the AGM. A proxy need not be a shareholder of the Company. Such shareholder may insert the name of a proxy of the shareholder's choice in the space provided, with or without deleting 'the Chair of the AGM, provided that any such deletion must be signed in full by the shareholder. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow. Should a proxy not be specified, this will be exercised by the Chair of the AGM.

2. The date must be filled in on this form of proxy when it is signed.

3. The completion and lodging of this form will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed, should such shareholder wish to do so.

4. The appointment of a proxy or proxies:
   - 4.1 is suspended at any time to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder; and
   - 4.2 is revocable in which case the shareholder may revoke the proxy appointment by:
     - 4.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and
     - 4.2.2 delivering a copy of the revocation instrument to the proxy and to the Company.

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:
   - 5.1 stated in the revocation instrument, if any; or
   - 5.2 upon which the revocation instrument is delivered to the proxy and the relevant Company as required in section 58(4)(c)(ii) of the Companies Act.

6. Should the instrument appointing a proxy or proxies have been delivered to the relevant Company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant Company's memorandum of incorporation to be delivered by such Company to the shareholder must be delivered by such Company to:
   - 6.1 the shareholder; or
   - 6.2 the proxy or proxies if the shareholder has in writing directed the relevant Company to do so and has paid any reasonable fee charged by the Company for doing so.

7. The proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used unless revoked as contemplated in section 58(5) of the Companies Act.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies. The completion of any blank space(s) need not be signed or initialled.

9. A power of attorney or other documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the Company or waived by the Chair of the AGM.

10. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

11. A company holding shares in the Company that wishes to attend and participate in the AGM should ensure that a resolution authorising a representative to act is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the Company's transfer secretaries prior to the AGM.

12. Where there are joint holders of shares, only one of such persons need sign the form of proxy. If more than one of such joint shareholder votes, whether in person or by proxy, only the vote of one of the said persons whose name appears first in the securities register in respect of such shares or his/her proxy, as the case may be, shall be counted.

13. Every shareholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll every shareholder present in person or represented by a proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the Company which the aggregate amount of the nominal value of the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares of the relevant class issued by the Company.

14. The Chair of the AGM may reject or accept any proxy which is completed and/or received, other than in accordance with these notes, provided that he shall not accept a proxy unless he/she is satisfied as to the matter in which a shareholder wishes to vote.

15. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.

16. You are not obliged either to cast all your votes or to cast all your votes in the same way. A shareholder's instruction to the proxy must be indicated either by:
    - 16.1 the insertion of an "X" in the appropriate box next to the resolution (i.e. in favour of and/or against and/or by way of abstention), in which event the proxy will cast all your votes in the manner so specified; or
    - 16.2 setting out the relevant number of shares to be voted on behalf of that shareholder in the appropriate box provided next to the resolution, provided that, if for any resolution the aggregate number of votes to be cast would exceed the total number of shares held, you will be deemed to have given no specific instruction as to how you wish your proxy to vote in respect of that resolution.

    Failure to comply with the above will be deemed to authorise the Chair of the AGM, if the Chair is the authorised proxy, to vote in favour of the resolutions at the AGM or other proxy to vote or to abstain from voting at the AGM as he/she deems fit, in respect of the shares concerned. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or the proxy, but the total of votes cast in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.

17. Where a proxy is appointed, the enclosed proxy form must be completed, signed and lodged, together with proof of the authority of the person signing the form in a representative capacity, with Computershare Investor Services Proprietary Limited, the transfer secretaries of the Company. It is recommended that such form of proxy be lodged with the transfer secretaries, by 9:00 on Tuesday, 16 October 2018 for administration purposes or handed to the Chair prior to the commencement of the AGM.

Glossary

AGM	Annual General Meeting
ARR	Average room rate, sometimes referred to as average daily rate
B-BBEE	Broad-based black economic empowerment
Companies Act	South African Companies Act, No 71 of 2008, as amended
CEO	Chief Executive Officer
CSDP	Central Securities Depository Participant
Cullinan	The Cullinan Hotel Proprietary Limited (Registration number 1988/004685/07), a private Company incorporated and registered in accordance with the laws of South Africa and a wholly owned subsidiary of Hospitality
DMTN	Domestic medium-term note programme
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent
FD	Financial Director
FF&E	Furniture, fittings and equipment
F&B	Food and beverage
F&V	Fixed and variable lease agreement
Group	Hospitality and its subsidiaries
HCI	Hosken Consolidated Investments Limited
Hospitality or the Company or the Fund	Hospitality Property Fund Limited
HPF Properties	HPF Properties Proprietary Limited, registration number 2005/020743/07, a wholly Owned subsidiary of Hospitality
HPF Management	HPF Management Proprietary Limited, registration number 2009/021472/07, a wholly owned subsidiary of Hospitality
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC <IR> Framework	International Integrated Reporting Council's <IR> Framework
IAR	Integrated annual report
<IR>	Integrated reporting
IT	Information Technology
JSE	JSE Limited

King IV	The King Code of Governance Principles for South Africa 2009
LID	Lead independent director
LTIs	Long-term incentives
LTV	Loan-to-value
Merway	Merway Fifth Investments Proprietary Limited (Registration number 1991/006478/07), a Private company incorporated and registered in accordance with the laws of South Africa and a wholly owned subsidiary of Hospitality
MOI	Memorandum of incorporation
PoPI	Protection of Personal Information
PwC	PricewaterhouseCoopers Inc. was appointed as the external auditor of Hospitality on 22 November 2016
REIT	Real Estate Investment Trust
Revpar	Revenue per available room
SAT	South African Tourism
SATSA	South African Tourism Services Association
SENS	Stock Exchange News Service of the JSE Limited
SPV	Special-purpose vehicle
SSH	Southern Sun Hotels Proprietary Limited, registration number 2002/006356/07 a wholly owned subsidiary of Tsogo Sun Hotels, Gaming and Entertainment Proprietary Limited, registration number 2002/006556/07
STI	Short-term incentives
STR	STR Global South African Hotel Review
STT	Securities transfer tax
The Board	The Board of directors of Hospitality Property Fund Limited
Transaction	The acquisition by Hospitality of the entire issued share capital of Merway and Cullinan from SSH
The trust	Hospitality employee incentive trust
Tsogo group	Collectively, Tsogo and its subsidiaries
Tsogo Sun	Tsogo Sun Holdings Limited
VAT	Value added tax
WESGRO	Western Cape tourism, trade and investment

Corporate information

COMPANY SECRETARY
LR van Onselen

REGISTERED OFFICE
HPF Management Proprietary Limited
(Registration number: 2009/021472/07)
The Zone, Phase 2, 2nd Floor, Loft Offices East Wing
cnr Oxford Road and Tyrwhitt Avenue
Rosebank, Johannesburg, 2196
(PO Box 522195, Saxonwold, 2132)

COMMERCIAL BANKERS
Nedbank Limited
(Registration number: 1966/010630/06)
1st Floor, Corporate Park
Nedcor Sandton
135 Rivonia Road
Sandown, Johannesburg, 2196
(PO Box 1144, Johannesburg, 2000)

STANDARD BANK OF SOUTH AFRICA LIMITED
(Registration number: 1962/000738/06)
3rd Floor, East Wing, 30 Baker Street
Rosebank, 2196

TRUSTEES TO NOTE HOLDERS
TMF Corporate Services (South Africa) Proprietary Limited
(Registration number: 2006/013631/07)
3rd Floor, 200 on Main
cnr Main and Bowwood Roads
Claremont, Cape Town, 7708
(Postnet Suite 294, Private Bag X1005, Claremont, 7735)

INDEPENDENT AUDITORS
PricewaterhouseCoopers Inc.
(Registration number: 1998/012055/21)
4 Lisbon Lane
Waterfall City, Jukskei View, 2090
(Private Bag X36, Sunninghill, 2157)

SPONSOR AND CORPORATE ADVISER
Java Capital
6A Sandown Valley Crescent
Sandton, Johannesburg, 2196
(PO Box 522606, Saxonwold, 2132)

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
(Registration number: 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, Johannesburg, 2196
(PO Box 61051, Marshalltown, 2107)

ATTORNEYS
Edward Nathan Sonnenbergs Inc.
(Registration number: 2006/018200/21)
150 West Street
Sandown, 2196
(PO Box 783347, Sandton, 2146)

Shapiro-Aarons Inc.
(Registration number: 1997/002933/21)
1 Unity Street
Fellside, Johannesburg, 2192
(PO Box 1107, Johannesburg, 2000)

Nortons Inc.
(Registration number: 2009/006902/21)
135 Daisy Street
Sandton, Johannesburg, 2196
(PO Box 41162, Craighall, 2024)

Forward-looking statement

Certain statements in this document may constitute 'forward-looking statements'. Such forward-looking statements reflect the Company's beliefs and expectations and involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Hospitality and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. Past performance of the Company cannot be relied on as a guide to future performance. Forward-looking statements speak only as at the date of this document. You are cautioned not to place any undue reliance on such forward-looking statements. No statement in this document is intended to be a profit forecast.

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Hospitality
PROPERTY FUND

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