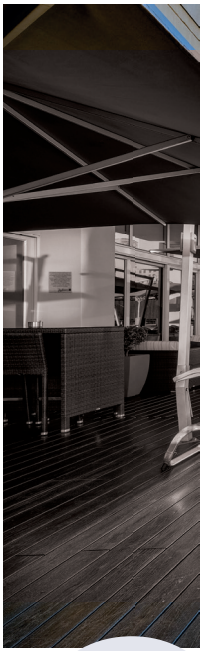
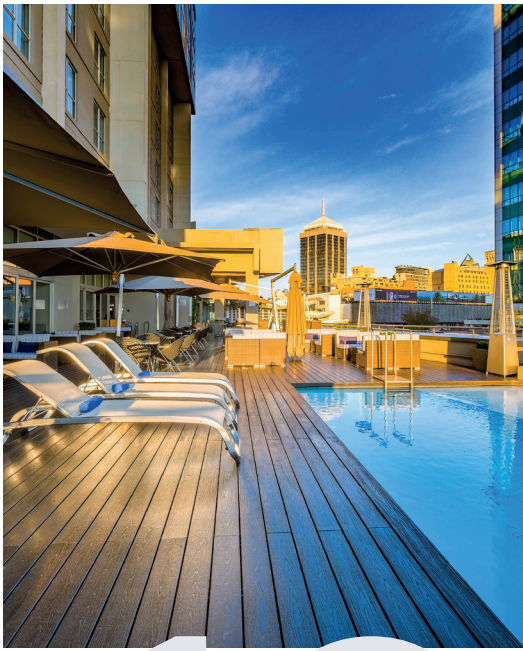
Hospitality
PROPERTY FUND

Summary consolidated financial results
for the year ended 31 March 2019





2019

Revenue for the year ended 31 March 2019 at

R828 million

Distribution per share of 105.39 cents

for the year ended 31 March 2019

LTV for the year ended 31 March 2019

at 16%

Commentary

Hospitality's board of directors ("board") declared a final dividend of 64.17 cents per share for the six months ended 31 March 2019, bringing the total distribution for the year ended 31 March 2019 to 105.39 cents per share. The Fund's distributable earnings decreased by 8% for the year, mainly due to the weaker trading conditions. Hotel occupancies are 1.8 percentage points (or 3%) down on the prior year, mainly due to volume lost in the Western Cape. The average room rate is marginally up by 1% on the prior year at R1 100, resulting in a revenue per available room ("RevPAR") decline on the prior year of 2%.

Rental income for the year ended at R828 million (2018: R867 million), being 4% down on the prior year mainly due to the poor performance from the Western Cape hotels. Hospitality's rental income is subject to seasonal variability and the trading has been impacted by the macro-economic conditions and uncertainty. Hospitality's operating expenses for the year include the transaction costs related to the unsuccessful casino acquisition of R20 million. Excluding these costs, the year-on-year expenses have increased by R10 million or 21% mainly due to the property-related costs increasing by R5.2 million and payroll costs increasing by R4.7 million. Net finance costs of R167 million (2018: R164 million) are higher than the prior year due to the weaker trading and capital expenditure increasing borrowings, partially offset by the negotiated interest rates being lower on the current borrowings.

The following table reflects the operating financial results for the year ended 31 March 2019 compared to the prior year ended 31 March 2018:

Summary of operating results as at 31 March 2019

	Actual 31 March 2019 R'000	Actual 31 March 2018 R'000	Variance on 31 March 2018 R'000	Variance on 31 March 2018 %
Contractual revenue	**827 631**	866 501	(38 870)	(4)
Sundry income	**1 112**	–	1 112	100
Fund expenses[1]	**(56 262)**	(46 555)	(9 707)	21
Net finance cost	**(166 988)**	(164 063)	(2 925)	2
Income from associates	**720**	275	445	162
Distributable earnings	**606 213**	656 158	(49 945)	(8)
Distribution comparative to prior years				
Clean out dividend (cents)[2]	**–**	14.74	(14.74)	(100)
Interim dividend (cents)	**41.22**	27.09	14.13	52
Final dividend (cents)	**64.17**	78.46	(14.29)	(18)
Combined distribution	**105.39**	120.29	(14.90)	(12)

[1] Fund expenses exclude exceptional transaction costs of R19 834.
[2] The clean out dividend in the prior year of 14.74 cents per share was declared on 9 June 2017 and paid on 10 July 2017.

Commentary continued

Hotel trading results

The hotel trading results are compared on a like-for-like basis for the year ended 31 March 2019. Room occupancy for the Fund's hotels declined by 2.3% to 62.6% while the market experienced a decline in occupancy levels of 1.6% to 62.4%. (For comparison to the STR Global South African Hotel Review ("STR") the Sun1 trading results are excluded.)

The general sentiment towards the economy saw increased pricing competitiveness across all the market segments. This reflected in the average room rate ("ARR") for the portfolio increasing marginally by 0.5% on the prior year, mainly due to the lack of rate growth from the Western Cape hotels. RevPAR thus decreased by 2.0%. The STR figures show a growth in ARR of 1.1% and a decline in RevPAR of 0.5% for the South African market over the year.

Hotel occupancy for the Fund's Western Cape hotels recovered in the second half of the year, although not enough to compensate for the trading decline in the first six months. Occupancies declined by 7.8% to 61.8% and were impacted by the additional supply into the Western Cape and the poor sentiment stemming from the Cape Town water crisis. ARR in the Western Cape is flat on the prior year at R1 647, resulting in a RevPAR decline of 7.8% to R1 018. As reported by STR, occupancy for the region declined by 4.4% to 63.8%, the ARR is 1.8% behind the prior year resulting in a RevPAR decline of 6.1% to R1 009.

In Gauteng, HPF's hotel occupancy over the period grew by 0.5% compared to the prior year to an occupancy of 59.9%. Individual hotels' trading remained volatile over the period with ARR increasing by 1.7%, resulting in RevPAR growth of 2.2% to R614. For the STR participating hotels in Gauteng, RevPAR increased by 2.5% to R688 and for the hotels in the rest of South Africa, RevPAR grew by 2.9% to R668, due to growth in the ARR. The remaining hotels in the Fund in the rest of South Africa grew RevPAR by 3.9% to R653, due to the growth in rate.

For the Sun1 properties, hotel occupancy was 4.7% down compared to the prior year but with ARR increasing by 5.9%, RevPAR grew by 1.0% to R272.

Property portfolio

The Fund's portfolio includes 53 hotel and resort properties in South Africa. The Fund's property portfolio was independently valued at 31 March 2019, resulting in a negative fair value adjustment of an additional R357 million, subsequent to the interim adjustment of R431 million. The fair value is determined by discounting the rental income (based on expected net future cash flows of the underlying hotels) after considering capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The weighted average lease expiry period is 14.5 years. As at 31 March 2019, the carrying amount of the portfolio was R12.0 billion and the net asset value ("NAV") per ordinary share amounted to R17.77.

Capital projects

In order to maintain the appeal of its properties, the Fund continually upgrades and invests in its hotels. Total capital expenditure amounting to R212 million was spent during the year. This includes

all capital expenditure spent on refurbishment projects, replacement of hotel furnishing, equipment and IT equipment. The major refurbishment projects included part of the rooms' refurbishments at The Westin and the Arabella Hotel & Spa. These projects will continue into FY2020.

Funding

In the prior year, Hospitality restructured its long-term borrowings due to favourable terms being achieved. The group's debt facilities with financial institutions as at 31 March 2019 amounted to R2.4 billion and the total drawn down facilities amounted to R1.9 billion resulting in a loan-to-value ("LTV") ratio (total interest-bearing liabilities/investment properties) of 16% (2018:15%). An interest rate swap with a nominal value of R250 million at a fixed rate of 7.88% matured in February 2019. This interest rate swap was replaced at a nominal value of R300 million at a fixed rate of 7.42% and will mature on 31 March 2022.

The interest cover ratio of 4.1 times (2018: 5.0 times) for the 12 months rolling to 31 March 2019 is well above the required debt covenant minimum of 2.0 times. The weighted average cost of net debt to 31 March 2019 is 9.6% (2018: 10.3%). Global Credit Ratings Co. upgraded the Fund's long-term credit rating to A- (ZA) and its short-term credit rating to A1- (ZA) on 27 September 2018.

Prospects

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Gearing is currently low at 16% and the Fund is committed to and able to fund its ongoing capital expenditure programme. In the short-term, the directors have therefore, decided to distribute 100% of distributable earnings to Hospitality's shareholders.

The forecasts previously presented on 21 September 2018 in relation to the proposed acquisition of the Tsogo casino precincts are withdrawn, due to the transaction not proceeding and the forecasts no longer being relevant.

Dividend payment

The board has approved and notice is hereby given of a gross dividend payment number 28 of 64.17163 cents per share for the six months ended 31 March 2019. The number of shares in issue at the date of the dividend declaration is 578 154 207 ordinary shares (for the purposes of the dividend declaration, 2 377 256 ordinary shares have been excluded from the dividend payment due to dissenting shareholder rights having been exercised and also excludes 562 774 ordinary shares held as treasury shares). In accordance with Hospitality's REIT status, shareholders are advised that the dividend meets the requirements of a "qualifying distribution" for the purposes of section 25BB of the Income Tax Act, No 58 of 1962 ("Income Tax Act").

Local tax residents

Qualifying distributions received by local tax residents must be included in the gross income of such shareholders (as a non-exempt dividend in terms of section 10(1)(k)(aa) of the Income Tax Act), with the effect that the qualifying distribution is taxable as income in the hands of the shareholder. These

Commentary continued

qualifying distributions are, however, exempt from dividend withholding tax in the hands of South African tax resident shareholders, provided that the South African resident tax shareholders provided the following forms to their Central Securities Depository Participant ("CSDP") or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

(a) a declaration that the dividend is exempt from dividends tax; and
(b) a written undertaking to inform the CSDP, broker or the company, as the case may be, should the circumstances affecting the exemption change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend, if such documents have not already been submitted.

Non-resident

Qualifying distributions received by non-resident shareholders will not be taxable as income and instead will be treated as ordinary dividends but which are exempt in terms of the usual dividend exemptions per section 10(1)(k) of the Income Tax Act. Assuming dividend withholding tax will be withheld at a rate of 20%, unless the rate is reduced in terms of any applicable agreement for the avoidance of double taxation ("DTA") between South Africa and the country of residence of the shareholder, the net amount due to non-resident shareholders will be 51.33730 cents per share. A reduced dividend withholding tax rate in terms of the applicable DTA may only be relied on if the non-resident shareholder has provided the following forms to their CSDP or broker, as the case may be, in respect of uncertificated shares, or the company, in respect of certificated shares:

(a) a declaration that the dividend is subject to a reduced rate as a result of the application of a DTA; and
(b) a written undertaking to inform their CSDP, broker or the company, as the case may be, should the circumstances affecting the reduced rate change or the beneficial owner cease to be the beneficial owner;

both in the form prescribed by the Commissioner for the South African Revenue Service. Non-resident shareholders are advised to contact their CSDP, broker or the company, as the case may be, to arrange for the abovementioned documents to be submitted prior to payment of the dividend if such documents have not already been submitted, if applicable. Shareholders are requested to seek professional advice on the appropriate action to take.

The dividend is payable in accordance with the timetable below:

Last day to trade *cum* dividend	Tuesday, 11 June 2019
Shares will trade *ex* dividend	Wednesday, 12 June 2019
Record date	Friday, 14 June 2019
Payment date	Tuesday, 18 June 2019

Shareholders may not dematerialise or rematerialise their shares between Wednesday, 12 June 2019 and Friday, 14 June 2019, both days inclusive.

Payments of the dividend will be made to shareholders on Tuesday, 18 June 2019. In respect of dematerialised shares, the dividend will be transferred to the CSDP accounts/broker accounts on Tuesday, 18 June 2019. Certificated shareholders' dividend will be deposited on or about Tuesday, 18 June 2019.

Hospitality's income tax reference number: 9770/799/1/47.

Subsequent events

Subsequent to year end, the board of directors declared a final gross cash dividend for the six months ended 31 March 2019 of 64.17 cents per share. The number of ordinary shares participating in the dividend at the date of declaration was 575 214 177 (excluding appraisal right shares and treasury shares).

The Fund settled corporate notes HPF08 and HPF09, which matured on 15 April 2019, of R80 million and R150 million respectively. A new corporate note for R300 million was issued (HPF12) and will mature in March 2024.

Change in directorate

The following changes in directorate occurred during the period under review:

Mrs Zola Malinga retired from the board at the annual general meeting of the company, held on 18 October 2018.

Mr Robert Nicolella, who had served on the board as a non-executive director since 1 September 2016, was appointed as an executive director and the Chief Executive Officer of Hospitality, following the resignation of Mr Keith Randall as an executive director and CEO, effective 1 November 2018. Mr Randall has stepped into the role of Chief Operating Officer.

Non-executive director Mr Jacques Booysen resigned from the board and Mr Marcel von Aulock was appointed as a non-executive director to the board with effect from 1 December 2018.

Messrs Don Bowden and Zuko Kubukeli resigned as independent non-executive directors on 15 March 2019.

The board will be reconstituted subsequent to year-end. As disclosed in the Stock Exchange News Service ("SENS") announcement made on 15 March 2019, in order to align with the board of Tsogo Sun Hotels Limited ("THL"), the following changes to the board will be effective from 1 June 2019:

- Mr Rob Nicolella will be stepping down as CEO but will remain a non-executive director of Hospitality;
- Mrs Mara de Lima, who has been the Chief Financial Officer ("CFO") of Hospitality for the past two years will be appointed as CEO;
- Mr Riaan Erasmus will be appointed as CFO to replace Mrs de Lima;
- Mr John Copelyn will step down as Chairman of the company and as a non-executive director;
- Mr Marcel von Aulock, the CEO of THL, will assume the role of non-executive director and Chairman of the company;
- Mrs Laurelle McDonald, the CFO of THL, will remain on the board as a non-executive director;

Commentary continued

- Mr Mohamed Ahmed, an existing board member, will assume the role of lead independent non-executive director and Chairman of the Audit and Risk Committee. Mr Ahmed's appointment as Audit and Risk Committee Chairman is with effect from 15 March 2019; and
- The balance of the independent non-executive directors will consist of Dr Moretlo Molefi, Mr Jabu Ngcobo and Mr Chris Gina.

In addition, Messrs Gerald Nelson, Sydney Halliday and Mohamed Gani will resign as independent non-executive directors with effect from 31 May 2019.

Hospitality would like to extend their gratitude and appreciation to all board members over their tenures and welcome the newly constituted board.

Presentation

Shareholders are advised that a presentation that provides additional analysis and information, will be available on the company's website at www.hpf.co.za from 24 May 2019.

By order of the board

JA Copelyn
(Chairman)

JR Nicolella
(Chief Executive Officer)

23 May 2019

Summary consolidated statement of comprehensive income

for the year ended 31 March 2019

	Audited March 2019 R'000	Audited March 2018 R'000
Revenue	**827 786**	866 917
Rental income – contractual	**827 631**	866 501
– straight-line accrual	**155**	416
Operating expenses	**(76 096)**	(46 555)
Operating profit	**751 690**	820 362
Other income	**1 767**	–
Insurance proceeds	**655**	–
Sundry income	**1 112**	–
Net finance cost	**(166 988)**	(164 063)
Finance income	**17 206**	27 706
Finance costs	**(184 194)**	(191 769)
Profit before sale of fixed assets, fair value adjustments, equity accounted profit and taxation	**586 469**	656 299
Profit on sale of furniture, fittings and equipment	**–**	109
Fair value adjustments	**(781 475)**	(542 931)
Investment properties, before straight-lining adjustment	**(787 414)**	(537 144)
Interest rate swaps	**6 094**	(5 371)
Change in fair value as a result of the straight-lining adjustment	**(155)**	(416)
(Loss)/profit before taxation	**(195 006)**	113 477
Equity accounted profit from associate after tax	**720**	274
Income tax expense	**191**	–
(Loss)/profit for the year	**(194 095)**	113 751
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
– Fair value adjustment of the investment properties acquired under common control	**–**	2 388 848
Total comprehensive (loss)/income for the year	**(194 095)**	2 502 599
(Loss)/profit attributable to:		
– Equity holders	**(194 095)**	113 751
Other comprehensive income attributable to:		
– Equity holders	**–**	2 388 848
Earnings and diluted earnings per share (cents)	**(33.74)**	22.97
Headline earnings and diluted headline earnings per share (cents)	**103.15**	131.42

Summary consolidated statement of comprehensive income continued

for the year ended 31 March 2019

	Audited March 2019 R'000	Audited March 2018 R'000
Reconciliation between total comprehensive (loss)/income for the year and headline earnings		
Total comprehensive (loss)/income for the year	**(194 095)**	113 751
Adjustments:		
Profit on sale of furniture, fittings and equipment	**–**	(109)
Straight-line adjustment	**(155)**	(416)
Fair value – investment properties revaluation	**787 569**	537 560
Headline earnings	**593 319**	650 786
Number of shares/units		
No par value ordinary shares	**575 214 177**	575 214 177
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Weighted average number of shares		
No par value ordinary shares	**575 214 177**	495 203 569
– Shares in issue	**578 154 207**	498 143 599
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
– Shareholder redemption	**(2 377 256)**	(2 377 256)
Earnings and diluted earnings per share (cents)	**(33.74)**	22.97
Headline earnings and diluted headline earnings per share (cents)	**103.15**	131.42

Summary consolidated statement of financial position

as at 31 March 2019

	Note	**Audited March 2019 R'000**	Audited March 2018 R'000
ASSETS			
Non-current assets		**12 026 805**	12 534 884
Investment properties	2	**12 023 914**	12 533 970
Furniture, fittings and equipment		**337**	163
Derivative asset		**1 783**	–
Investment in associates		**771**	751
Current assets		**239 792**	590 106
Non-current assets held for sale		**–**	65 600
Receivables and cash		**239 792**	524 506
Trade and other receivables		**144 510**	133 915
Cash and cash equivalents		**95 282**	390 591
Total assets		**12 266 597**	13 124 990
EQUITY AND LIABILITIES			
Equity		**10 222 055**	11 104 603
Stated capital		**9 027 065**	9 027 065
Retained earnings		**343 035**	444 108
Common control reserve		**(1 106 013)**	(1 106 013)
Non-distributable reserve		**1 957 968**	2 739 443
Non-current liabilities		**1 649 775**	1 941 596
Interest-bearing liabilities		**1 647 358**	1 936 071
Derivative liability		**1 971**	4 042
Long-term incentive liabilities non-current portion		**446**	1 483
Current liabilities		**394 767**	78 791
Trade and other payables		**79 219**	51 919
Short-term portion of interest-bearing liabilities		**290 000**	–
Provision for shareholder redemption		**24 129**	24 129
Long-term incentive liabilities current portion		**1 419**	502
Derivative liability		**–**	2 241
Total equity and liabilities		**12 266 597**	13 124 990

Summary consolidated statement of changes in equity

for the year ended 31 March 2019

	Stated capital R'000	Treasury share reserve R'000	Retained earnings R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 April 2017 (audited)	5 575 253	(9 995)	138 719	–	893 526	6 597 503
Total comprehensive income for the year	–	–	2 502 599	–	–	2 502 599
Total other comprehensive income for the year	–	–	(2 388 848)	–	2 388 848	–
Transaction costs (Tsogo transaction)	(5 256)	–	–	–	–	(5 256)
Issue of no par value ordinary shares	3 467 063	–	–	–	–	3 467 063
Dividend declared on 24 May 2017	–	–	(147 192)	–	–	(147 192)
Dividend declared on 9 June 2017	–	–	(48 312)	–	–	(48 312)
Dividend declared on 22 November 2017	–	–	(155 789)	–	–	(155 789)
Common control reserve	–	–	–	(1 106 013)	–	(1 106 013)
Transfer to fair value reserve – investment property	–	–	537 560	–	(537 560)	–
Transfer to fair value reserve – interest rate swaps	–	–	5 371	–	(5 371)	–
Balance at 31 March 2018 (audited)	9 037 060	(9 995)	444 108	(1 106 013)	2 739 443	11 104 603
Total comprehensive income for the year	–	–	(194 095)	–	–	(194 095)
Dividend declared on 23 May 2018	–	–	(451 330)	–	–	(451 330)
Dividend declared on 21 November 2018	–	–	(237 123)	–	–	(237 123)
Transfer to fair value reserve – investment property	–	–	787 569	–	(787 569)	–
Transfer to fair value reserve – interest rate swaps	–	–	(6 094)	–	6 094	–
Balance at 31 March 2019 (audited)	9 037 060	(9 995)	343 035	(1 106 013)	1 957 968	10 222 055

Summary consolidated statement of cash flows

for the year ended 31 March 2019

	Audited March 2019 R'000	Audited March 2018 R'000
Cash flows from operating activities		
Cash generated from operations	**771 480**	725 127
Finance income received	**17 206**	27 706
Finance costs paid	**(184 194)**	(191 769)
Distribution to shareholders	**(688 453)**	(351 293)
Net cash (utilised for)/generated from operating activities	**(83 961)**	209 771
Cash flows from investing activities		
Acquisition and development of investment properties	**(211 992)**	(416 873)
Proceeds on disposal of non-current assets held for sale	**–**	911
Acquisition of furniture and equipment	**(290)**	–
Dividends received from associate	**700**	–
Cash acquired through acquisition of subsidiary	**–**	202 640
Acquisition of subsidiary	**–**	(1 030 000)
Proceeds from disposal of investment property	**234**	–
Proceeds from disposal of furniture, fittings and equipment	**–**	109
Net cash utilised for investing activities	**(211 348)**	(1 243 213)
Cash flows from financing activities		
Interest-bearing liabilities raised	**100 000**	1 928 935
Interest-bearing liabilities paid	**(100 000)**	(1 709 700)
Cash proceeds from rights issue	**–**	1 000 000
Transaction costs	**–**	(5 256)
Net cash inflow from financing activities	**–**	1 213 979
Net (decrease)/increase in cash and cash equivalents	**(295 309)**	180 537
Cash and cash equivalents at beginning of the year	**390 591**	210 054
Cash and cash equivalents at end of year	**95 282**	390 591

Summary consolidated segmental information

for the year ended 31 March 2019

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before finance costs, as included in the internal management reports that are reviewed by the group's executive committee, who are the group's chief operating decision makers. Generally, geographical segments are used to measure performance as the group's board believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries, particularly post the acquisition of the additional hotel properties during the previous period. Sun1 is disclosed as a separate segment as the grading is different to the existing portfolio.

	Audited March 2019 R'000	Audited March 2018 R'000
Total assets		
Western Cape	**5 087 453**	5 860 680
Gauteng	**3 603 185**	3 330 214
Rest of South Africa	**2 493 286**	2 474 430
Sun1	**839 990**	933 830
Head Office	**242 683**	525 836
	12 266 597	13 124 990
Rental revenue		
Western Cape	**312 387**	368 587
Gauteng	**266 785**	259 774
Rest of South Africa	**186 438**	186 693
Sun1	**62 176**	51 863
	827 786	866 917
Operating profit for the period		
Western Cape	**312 387**	368 587
Gauteng	**266 785**	259 774
Rest of South Africa	**186 438**	186 693
Sun1	**62 176**	51 863
Head Office income	**1 767**	–
Head Office expense	**(76 096)**	(46 555)
	753 457	820 362
Reconciliation between headline earnings and distributable earnings		
Headline earnings	**593 319**	650 786
Insurance proceeds	**(655)**	–
Fair value – interest rate swaps	**(6 094)**	5 371
Income tax expense	**(191)**	–
Exceptional transaction costs	**19 834**	–
Distributable earnings	**606 213**	656 157
Distribution per share (cents)		
No par value share	**105.39**	120.29
– Clean out	**–**	14.74
– Interim	**41.22**	27.09
– Final	**64.17**	78.46
	105.39	120.29

Notes to the summary consolidated financial statements

for the year ended 31 March 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act, 71 of 2008, applicable to summary financial statements. The JSE Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements for the year ended 31 March 2019 were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and the auditor's report thereon are available for inspection at the company's registered office.

The directors take full responsibility for the preparation of the preliminary report and that the financial information has been correctly extracted from the underlying annual financial statements.

The preparation of these summary consolidated financial statements were supervised by MR de Lima in her capacity as Hospitality's Financial Director.

		2019 R'000	2018 R'000
2.	**INVESTMENT PROPERTY**		
	Opening balance as at 1 April	**12 533 970**	8 061 038
	Acquisition of Merway and Cullinan	**–**	2 172 892
	Acquisition from Savana	**–**	301 550
	Additions to investment properties	**211 992**	145 478
	Fair value adjustment recognised through profit or loss	**(787 569)**	(536 252)
	Fair value adjustment recognised through other comprehensive income	**–**	2 388 848
	Transfer from non-current assets held for sale	**65 600**	–
	Disposal	**(234)**	–
	Straight-line rental income accrual	**155**	416
	Closing balance as at 31 March	**12 023 914**	12 533 970

Notes to the summary consolidated financial statements continued

for the year ended 31 March 2019

3. FAIR VALUE ESTIMATION

The group fair values its investment properties and interest rate swaps. There were no transfers into or out of level 3 financial instruments.

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

As at 31 March 2019, the significant observable inputs were as follows:
– a weighted rental growth of 5.25% (2018: 5%);
– a reversionary capitalisation rate of between 7.25% and 7.75% (2018: 7.23% to 8.07%); and
– a risk-adjusted discount rate of between 12.50% and 13.00% (2018: 12.23% to 13.07%).

Material adverse changes to valuations are due to the material change in rental income, largely due to the change in sentiment, mainly in Cape Town, stemming from the drought and the impact this has had on the summer season in Cape Town, as well as the lower domestic corporate business which collectively impacted negatively on hotel occupancy levels.

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

	Increase Rm	Decrease Rm
5% change in the net cash flows	**707**	(707)
25bps change in the terminal capitalisation rate	**(291)**	313
50bps change in the discount rate	**(233)**	239

Interest rate swaps

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

The fair value of the derivatives is a net liability of R0.2 million (31 March 2018: R6 million net liability) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

4. RELATED PARTIES

Rental income received from Tsogo Sun for the period 1 April 2018 to 31 March 2019 amounted to R442 million (31 March 2018: R420 million) of which R40 million was receivable at 31 March 2019 (31 March 2018: R42 million).

5. CHANGES IN ACCOUNTING POLICIES

The group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board (IASB) which were effective for the group from 1 April 2018. In particular, the following standards had an impact on the group's financial statements:

(i) IFRS 9 *Financial Instruments*

The group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy for financial instruments, IAS 39.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The standard applies two criteria to determine how financial assets should be classified and measured, namely:

(a) the entity's business model for managing the financial assets; and
(b) the contractual cash flow characteristics of the financial asset.

The group has applied IFRS 9's classification and measurement requirements based on the facts and circumstances of the various types of instruments at the date of adoption of IFRS 9.

The only change as a result of the implementation of IFRS 9 is that, in the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectable were written off by reducing the carrying amount directly. The other receivables were assessed individually to determine whether there was objective evidence that an impairment had been incurred. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. Amounts charged to the provision account were generally written off when there was no expectation of recovering additional cash.

Financial liabilities classification and measurement under IFRS 9 has not changed significantly from IAS 39. Financial liabilities are either held at fair value (either required or designated) or at amortised cost. The new standard has not impacted the financial liabilities of the group.

Notes to the summary consolidated financial statements continued

for the year ended 31 March 2019

5. CHANGES IN ACCOUNTING POLICIES continued

(i) IFRS 9 *Financial Instruments* continued

The below table summarises the original classification under IAS 39 and the new classification under IFRS 9 for each class of the group's financial assets and financial liabilities.

	Original classification under IAS 39	New classification under IFRS 9
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss
Trade receivables	Loans and receivables	Financial assets at amortised cost
Sundry and other debtors	Loans and receivables	Financial assets at amortised cost
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Related-party receivables	Loans and receivables	Financial assets at amortised cost
Interest-bearing liabilities	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Trade payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Tenant deposits	Financial liabilities at amortised cost	Financial liabilities at amortised cost
Related-party payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 established a comprehensive framework for determining and reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contract with customers. It replaces IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts and their related interpretations in IFRS and applies to all contracts with customers except for contracts within the scope of other standards on leases, insurance contracts and financial instruments. If therefore does not impact the group's revenue as its revenue is derived from lease contracts.

6. SUBSEQUENT EVENTS

Please refer to page 5 for details on subsequent events.

7. COMMITMENTS

The board has committed a total of R263 million for maintenance items at its hotel properties of which R263 million is anticipated to be spent within the 2020 financial year. R32 million of the committed capital expenditure has been contracted for at year-end. The board has committed R29 million for expansive capital expenditure.

Administration

Hospitality Property Fund Limited

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

Registered office

The Zone 2, Loft Offices East Wing
2nd Floor, corner Oxford Road and Tyrwhitt Avenue
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Tel: +27 11 994 6300

Directors

JA Copelyn (Chairman)*, GA Nelson*#(Lead Independent Director), JR Nicolella (CEO), MR de Lima (FD), M Ahmed*#, MSI Gani*#, ZJ Kganyago*, SA Halliday*#, L McDonald*, MN von Aulock*

*Non-executive #Independent

Company Secretary

LR van Onselen

Transfer secretaries

Computershare Investor Services Proprietary Limited

Sponsor

Java Capital


TO WIN!
IN HOTEL