Hospitality PROPERTY FUND

Integrated annual report 2017

Contents

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.

	Reference	Description	Rationale
Financial results	*Financial statutory results*	Actual nine month performance for the period from 1 July 2016 to 31 March 2017, compared to a 12-month period from 1 July 2015 to 30 June 2016	Year end changed from 30 June to 31 March in the current reporting period
	Like-for-like comparison	Comparison between the nine month results from 1 July 2016 to 31 March 2017 and the nine month results from 1 July 2015 to 31 March 2016	The following adjustments have been made to allow for a like-for-like comparison of performance: – Disposal of the Inn on the Square (20 November 2016) has been excluded – Disposal of seven properties in the prior year have been excluded – Acquisition of 10 hotel properties from Tsogo Sun (effective 1 September 2016) has been included for the full nine month period in the current and prior years
Hotel performance results	*Annual comparison*	Compares results for the period from 1 April 2016 to 31 March 2017 to the prior period of 1 April 2015 to 31 March 2016	The following adjustments have been made to allow for a 12-month like-for-like comparison: – Disposal of the Inn on the Square (20 November 2016) has been excluded – Disposal of seven properties in the prior year have been excluded – Acquisition of 10 hotel properties from Tsogo Sun (effective 1 September 2016) has been included in the current and prior years

Reporting suite

Our integrated annual report has been prepared to provide stakeholders with a holistic and transparent view of our business model and strategy and is aimed at all our key stakeholders. More detailed information is also contained in our supplementary reporting suite as follows:

– **Annual financial statements:** Our detailed financial performance for the year [http://www.hpf.co.za/financial-results/annual-reports/]

– **Reviewed condensed consolidated financial results:** A summarised overview of our performance for the year [http://www.hpf.co.za/financial-results/results-announcements/]

– **Results presentations:** A database of our results presentations to analysts and investors [http://www.hpf.co.za/investor-centre/presentations/]

– **Notice of annual general meeting:** A summarised overview of our performance for the year [http://www.hpf.co.za/]

– **King III application checklist: A detailed description of Hospitality's application of the King III principles [http://www.hpf.co.za/directorate/application-of-king-iii/]**

– **SENS: A database of all regulatory announcements published on the Stock Exchange News Service [http://www.hpf.co.za/news/sens-media-coverage/]**

Fund at a glance

The purpose of Hospitality Property Fund is to invest in quality properties in the South African hospitality industry. 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.

Reporting philosophy

During the year under review, the Fund has undergone extensive changes, led by the transaction with Tsogo Sun, which became effective 1 September 2016 and the simplification of our capital structure into a single share class. In this report we present our shareholders and other stakeholders, including our employees, partners and hotel management companies, who have an interest in our ability to create and sustain value, with an integrated and concise overview of Hospitality's strategy, business model and performance.

Our integrated reporting objectives are as follows:
- To clearly explain Hospitality's business model and strategy;
- To present a compelling investment case and value proposition; and
- To move towards concise and focused business reporting.

Reporting principle and frameworks

The financial and other information has been prepared in accordance with regulatory requirements namely IFRS, the South African Companies Act 2008, the JSE Listings Requirements, King III as well as the voluntary guidelines of the International Integrated 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 the business faces. We have explained our process for determining materiality on page 18. 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.

Hospitality changed its year end from June to March to align with that of its majority shareholder, Tsogo Sun. This report therefore covers a nine month financial reporting period from 1 July 2016 to 31 March 2017 compared to a 12-month period for the year ended June 2016. In addition, the Fund comprises 24 properties as at 31 March 2017 compared to the 15 properties as at 30 June 2016.

Assurance

The process of integrated reporting continues to evolve and at this stage Hospitality has not sought external verification of the content or part thereof apart from the annual financial statements, which the external auditor, PwC Inc. has provided assurance on, as confirmed in the independent auditor's report. The internal audit function is outsourced.

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. The board has applied its collective mind to the preparation and presentation of the integrated annual report. The integrated annual report was approved by the board on 15 September 2017.

The strategic objectives of the Fund are to:

sustain and

optimise our business, and

grow our portfolio.

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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Highlights

Financial and operational KPIs

Sustain

For comparative purposes, financial like-for-like* figures for the nine months to 31 March 2017, have been compared to the same period in the prior year (excluding disposal properties).

Financial strength and durability

- Distributable earnings increased 57% to R345 million (2016: R220 million)
- Distribution of 101.01 cents per share paid for the period (excluding the clean-out distribution)
- Clean-out distribution of 9.29 cents on the A share (prior to the capital restructure) paid on 10 October 2016
- Completed restructure of the dual-class share capital structure into a single-class capital structure
- Loan-to-value ratio down to 21%
- Weighted cost of net debt 10.4%
- Market capitalisation was R4.6 billion at 31 March 2017

Product relevance

- Capital expenditure of R73 million for property refurbishments
- Capital expenditure equal to 15% of rental income
- Five-year capital expenditure programme in place

Subsequent events:

- DMTN programme increased to R5 billion from the original DMTN programme of R2 billion effective April 2017
- Fully underwritten rights offer of R1 billion completed to fund the acquisition of Cullinan & Merway effective 4 August 2017

Governance and sustainability

Board strengthened to support the Fund's strategic direction

An increase in BBBEE rating from level 4 to level 1 achieved through our majority shareholder

Refer reporting period definitions on the contents page.

Optimise

Portfolio management

- Rental income of R499 million (2016: R475 million)[2]
- Occupancy grew 2.3% to 65.5% (2016: 64.0%)[1]
- Average room rate ('ARR') increased 6.4% to R1 218 (2016: R1 144)[1]
- Revenue per available room ('Revpar') increased 8.9% to R797 (2016: R732)[1]
- Disposal proceeds of one non-core property R157 million

[1] *Annual comparison (refer to reporting period definitions on the contents page).*

Business intelligence

Commenced with systems and infrastructure upgrades and integration

Grow

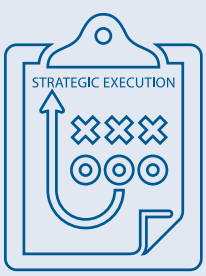
Acquisitions

- Property portfolio value increased to R8.2 billion (2016: R5.3 billion)[2]
- Property portfolio increased to 24 properties (2016: 15 properties)[2]
- Net asset value per share increased to R19.96 (2016: R12.93 per combined A and B shares)[2]

Subsequent events:

- Acquisition of 29 additional hotels (Cullinan and Merway) consisting of 3 771 rooms from Tsogo Sun effective 1 July 2017
- Additional sections and exclusive areas in the Sandton Eye Scheme acquired together with a real right of extension effective 21 August 2017

[2] *Financial statutory results (refer to reporting period definitions on the contents page).*



Leadership changes implemented to support strategic execution including Financial Director and CEO

Strong independent board representation

Mount Grace Country House and Spa – Magaliesburg

Chairman and Chief Executive Officer's overview

The nine month financial period ended March 2017 delivered significant growth of 57% in distributable income on the comparable nine month period in the prior year. This was mainly due to the acquisition of 10 hotel properties (effective 1 September 2016) through the issue of Hospitality shares to the Tsogo Sun group which increased their shareholding to 50.6% resulting in them becoming the controlling shareholder.

John Copelyn
Chairman

The Fund restructured its dual-class share capital structure to a single-class share capital structure aligning shareholders' interests. In total eight non-core investment properties were disposed of during the current and prior reporting periods. These acquisitions, disposals, share capital restructure and change of year end mean that distributable income per share is not comparable. On a like-for-like basis, over a full 12-month period ended March 2017 versus the prior 12-month period, Revpar for the Fund's hotels would have grown by 8.9% and rental income by 10%, supported by a good summer season in Cape Town.

Keith Randall
Chief Executive Officer

Subsequent to year end, there are four key projects that the Fund focused on:

- the acquisition and integration of a further 29 properties from Tsogo Sun for R3.6 billion settled by way of shares and cash, which is effective 1 July 2017;
- the acquisition of sections and exclusive use areas in the Sandton Eye sectional title scheme, together with the acquisition of a real right to extend the existing scheme by some 10 000m^2;
- the implementation of a R1.0 billion rights offer to support the funding of the above acquisitions; and
- the restructuring of the debt portfolio, reducing the net cost of debt and improving the flexibility of cash management and property provided as security for funding.

These acquisitions considerably increase the Fund's assets and contribute to a diversification of Hospitality's earnings base.

Chairman and Chief Executive Officer's overview continued

Strategic objective

We have a clear and concise vision and purpose, "To own quality properties in the South African hospitality industry." The strategic objectives of the Fund are to sustain and optimise our business, and to grow our portfolio. The outlook for the South African economy remains uncertain and volatile. The ongoing sustainability of the Fund is thus a key focus which will be achieved through identifying risks and opportunities and then developing mitigating measures to minimise the impact of the risks and strategies in order to take advantage of the opportunities. Optimisation is a priority to continuously improve the management of the portfolio of assets, the capital structure, cost control and information and data management to support decision-making. Growth will be achieved both organically and inorganically and is measured by the increase in distributable earnings and distributable earnings per share.

Sustain

The Fund will focus on improving its financial strength and making sure that its properties remain relevant in the markets in which they operate. These are specifically aimed at ensuring the long-term sustainability and prosperity of the Fund.

Financial strength and durability

The rapid growth of the Fund's balance sheet through the acquisition of the Tsogo Sun properties in both the current period and undertaken post-year end are a significant boost to the sustainability of the Fund.

The acquisitions have been funded largely through the issue of shares and additional cash raised through a rights offer. The loan to value ratio is conservative and will be well within the limits of a REIT, which is an important consideration in the cyclical hospitality industry. The restructuring of the debt together with due consideration of Hospitality's distribution policy will ensure sufficient flexibility and further protect the Fund against macro-economic shocks, enable it to maintain its properties, and take advantage of further acquisition opportunities.

The nature and location of the Fund's properties provides diversification in terms of both geographical spread and branding across the accommodation grades. This diversifies the trading risk inherent in each property in the hospitality industry and thus improves the Fund's sustainability.

Product relevance

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. These businesses are reliant on their customers actually visiting the properties in order to utilise their products. The Fund works closely with the hotel management companies to plan product enhancements, improvements and ongoing maintenance. The majority of the Fund's assets are in 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.

The Fund invested R73 million in the capital expenditure programme over the nine month period. The larger projects included the refurbishment and security upgrade to the corridors at the Westin, the upgrade of the spa and refurbishment of the corridors at the Radisson Waterfront and refurbishments to some of the conference rooms and bedrooms at the Birchwood Hotel.

Optimise

Improvements in how the business is managed and run are a key focus for the Fund. With the diversification in brands and specialist hotel management companies running a cross section of graded hotels, these relationships are key both in terms of trading performance and the management and allocation of funds for capital improvement and maintenance.

Portfolio management

The relationship and communication with the hotel management companies that run the hotel properties are key to the ultimate performance of each of the hotel assets. The marketing and sales capabilities of the hotel management companies are a sought after and core capability and strength of those managers. The Fund's role is to align with and enhance this capability through the delivery of the physical product. Performance is measured and analysed to support decisions relating to capital allocation and the business strategies of the managers.

Business intelligence

In order to support Hospitality's ability to efficiently manage its growing property portfolio, it is implementing new systems and business intelligence tools to monitor and benchmark property performance and support decision-making.

Growth

The value of the business is determined by the ability of the Fund to grow its assets and the earnings that it distributes. The Fund's property portfolio was independently valued at 31 March 2017 and resulted in a net fair value increase of R184 million to a total fair value of R8.1 billion. The Fund's assets had a total fair value of R5.2 billion at 30 June 2016.

Organic growth

Room occupancy for the Fund's hotels grew 2.3% to 65.5% supported by the strong growth in room demand in the Cape Town hotels. This level of organic growth in trading is dependent on macro-economic conditions and is unlikely to be sustained should these deteriorate any further, or if new hotel properties are added in the better

performing markets. In the current economic climate it is likely that individual properties will experience greater volatility in their trading. The Fund gains some protection from this through the geographic spread and the varied grading and branding of its hotels.

Rental income for the nine month period increased 35% on the same period in the prior year to R499 million and includes the impact of the 10 hotels acquired from Tsogo Sun and the disposal of eight non-core investment properties. Given the small change in the Fund's expenses and finance costs, distributable income grew by 57% to R344 million. The assets on a like-for-like 12-month period would have produced an increase in rental income of 10%.

With the changes that have taken place in the nature and location of the hotel properties in the Fund's portfolio, it is well placed to benefit should macro-economic factors improve.

Inorganic growth

Inorganic growth is sought through the expansion of existing facilities and the acquisition of additional properties. During the period the Fund acquired 10 hotels from Tsogo Sun for a cost of R2.6 billion in an asset for share transaction.

As mentioned, acquisitions that were concluded post-year end are:

- the second acquisition from Tsogo Sun of the Cullinan assets, being 10 mid- to upscale hotels and the Merway Fifth assets, being 19 Sun1 economy hotels. This transaction is effective 1 July 2017; and
- the acquisition of sections in the Sandton Eye sectional title scheme together with an existing real right of extension.

These acquisitions consist of hotel properties that are familiar to management and we are confident in their ability to generate value to our shareholders.

Governance

Hospitality supports corporate governance and the outcomes set out in King IV, being; an ethical culture, performance and value creation, adequate and effective controls, and trust, good reputation and legitimacy.

We are in the process of aligning ourselves with the King IV principles and measuring ourselves against the outcomes.

Appreciation

We wish to extend our appreciation to the board, management and staff of the Fund for the efforts over a year that witnessed much change at the Fund. In addition, we thank Marcel von Aulock who provided sound leadership throughout this process and Don Bowden who stepped down as Chairman of the board but remains a member of the board. We also thank Vincent Joyner, the previous CEO, for a smooth handover. The Fund has excellent people and assets to ensure its continued sustainability.

John Copelyn
Chairman

Keith Randall
Chief Executive Officer

StayEasy Century City – Cape Town

Business and operating model

Geographic locations

9 Western Cape

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 Gauteng

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 OR Tambo
Garden Court Milpark
Southern Sun Katherine Street*
Garden Court Morningside*
Garden Court Eastgate*
Garden Court Hatfield*
StayEasy Eastgate*

12 Rest of South Africa

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*

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.*

Luxury WESTIN HOTELS & RESORTS; ARABELLA HOTEL & SPA; AFRICAN PRIDE

Upscale Southern Sun HOTELS; Holiday Inn; CROWNE PLAZA; Radisson; CHAMPAGNE SPORTS RESORT

Midscale SUN SQUARE; Garden Court; stayeasy; PROTEA HOTELS; BIRCHWOOD; arla KOPANONG HOTEL & CONFERENCE CENTRE

Economy SUN1

Business and operating model

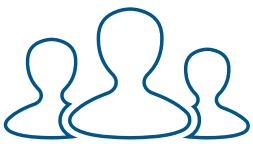
Our investment case

Why invest in Hospitality?

Unique REIT

Hospitality is the only specialised REIT on the JSE investing in the hospitality industry. We provide investors with exposure to rental income streams from the hospitality sector.

Management



Hospitality has an **experienced management** team with the capability to deliver on its strategic objectives. The management team is supported by a diversified and independent board of directors.

Market

Occupancy and average room rates from hotel accommodation in South Africa have **reflected a positive trend** despite uncertainty in the domestic economy. This has been underpinned by growing foreign tourism and limited supply of new hotel rooms coming on stream since 2010.

Portfolio

We have a **well diversified portfolio of 53 properties** (as at 1 July 2017) across geographic location and grading, comprising **more than 9 000 rooms in South Africa.**

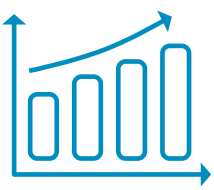
Financial strength

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.

Strategy

Our purpose is to own quality properties in the South African hospitality industry. The strategic objectives of the Fund are to **sustain and optimise our business, and to grow our portfolio,** both organically and inorganically to increase distributable earnings and distributable earnings per share.

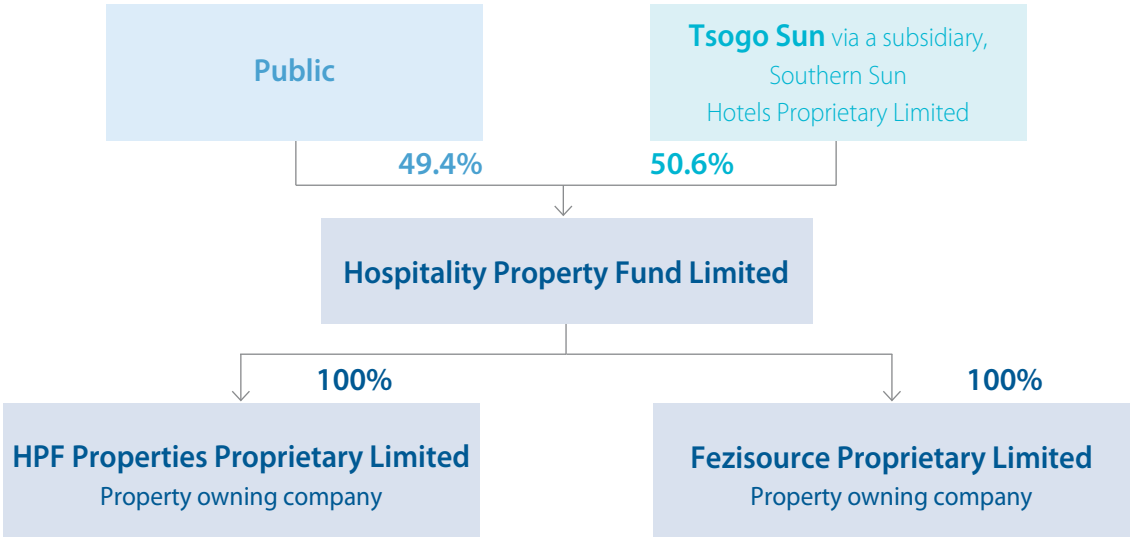
Performance



Distributable earnings **increased to R345 million** in the nine months ended 31 March 2017, while our net asset value per share **increased to R19.96 per share**, which is 54% higher than the combined value per A and B share a year ago.

Business and operating model continued

Group structure at 31 March 2017*



Our relationship with tenants and hotel management companies is as follows:

Our tenants have management agreements with reputable hotel management companies. The interaction and liaison regarding operational performance and strategic direction of the hotels is predominately with the hotel management companies.

* *Effective 1 July 2017, The Cullinan Hotel Proprietary Limited and Merway Fifth Investments Proprietary Limited are also wholly owned property owning companies of Hospitality.*

Mount Grace Country House and Spa – Magaliesburg

Business and operating model continued

EXTERNAL ENVIRONMENT: **Real estate fundamentals**

1 Inputs (capitals)

Financial
- Capital funding (equity and debt)
- Loan to value
- Single class share structure
- REIT

Manufactured
- Relevant hospitality properties diversified across grade and geographic location

Intellectual
- Multi-graded properties
- International and domestic brands
- Know-how of the underlying hotel industry and operations

2 Core business activities and support 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.

Maintain properties and expand where feasible.

Lease

Lease properties to tenants associated with hotel brands across grading segments.

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

Refer to pages 19 and 21 for more information on our relationship with tenants/hotel management companies.

EXTERNAL ENVIRONMENT: **Foreign tourist arrival trends**

Political volatility **Utility failure**

Social and relationship
- Symbiotic relationship with tenants and their hotel management companies
- SA REIT Association
- Capex procurement suppliers
- Tsogo Sun as majority shareholder of the Fund

Natural
- Utilities management

Human
- Specialised knowledge and skills
- Ethical values
- Engaged workforce

3 Outputs (capitals)

Financial
- Market capitalisation
- Capital raised
- Interest cover ratio
- Rental revenue
- Distributed income
- Distributed income per share
- Net asset value
- Loan to value
- Average cost of net debt

Manufactured
- Investment in property assets (acquisitions, expansions and maintenance)
- Disposal of non-core properties
- IT system spend

Intellectual
- Maintain diversified portfolio of brands
- Internal systems and processes streamlined

Social and relationship
- Tenant retention
- BBBEE level

Natural
- Resource efficiencies
- Mechanical, electrical and plumbing ('MEP') technology spend in hotels

Operational outputs
- Rooms department profit
  - Occupancy
  - ARR
  - Revpar
- F & B department profit
  - Cost of sales percentage
  - Conference contribution
- Other department profits
- Operating margin

4 Outcomes and strategic objectives

Our purpose

To invest in quality properties in the South African hospitality industry

Strategic objectives

Sustain
- Financial strength and durability
- Product relevance

Optimise
- Portfolio management
- Business intelligence

Grow
- Acquisitions

Travel and Visa regulation **Hospitality and leisure market**

Business and operating model continued

Hospitality is the only

specialised REIT

on the JSE investing in the hospitality industry. The hospitality industry is characterised by income that is subject to seasonal variability and capital requirements that are intensive. The potential upside allows the owner to deliver on the full return potential of these assets.

As the property owner, we have a symbiotic relationship with

our tenants

and the hotel management companies, who are 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.

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

Garden Court Milpark – Johannesburg


Sustain


Optimise


Grow

We receive rental income from our tenants. The leases for all our properties, with the exception of Champagne Sports Hotel and Resort, have a fixed and variable component.	Portfolio management
We engage regularly with our tenants and their hotel management companies and monitor the performance of individual properties through monthly reports that are provided by each hotel management company. In addition, peer group benchmarking, statistical analysis and reviews of economic trends are conducted by the Fund and the findings used to optimise the performance of the properties.	Portfolio management Business intelligence
We measure the consumption of electricity and water and review municipal rates, which present a challenge in the current operating environment due to above inflation price increases. Energy and water-saving initiatives are encouraged and supported through capital replacement where appropriate.	Portfolio management
We maintain and improve our properties through regular and responsible capital investments. This includes planned refurbishments of furniture, fittings and equipment ('FF&E') and major plant to preserve the quality of the existing amenities and customer experience. Feasibility studies are conducted on expansions to analyse the return potential under prevailing trading conditions. Board approval is required for all capital expenditure projects. Once approved, project implementation on expansion and major refurbishments, are outsourced to third-party development consultants.	Product relevance
We evaluate acquisition opportunities to deliver on our objective to sustainably grow our assets under management.	Acquisitions
We review and dispose of certain properties that do not match our investment profile 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.	Product relevance
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.	Financial strength and durability Acquisitions
We pay distributions 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.	Financial strength and durability

Details of the property portfolio

Property name	Property location	Star grading	Number of rooms	Valuation March 2017 (R'000)	Acquisition cost effective 1 July 2017
WESTERN CAPE					
Westin Cape Town	Convention Square, Cape Town	Luxury	483	1 850 638	
Arabella Hotel and Spa	Hermanus	Luxury	145	166 450	
Arabella Phase 2 land	Hermanus	N/A	N/A	22 643	
Southern Sun Cullinan	Waterfront, Cape Town	Upscale	394		1 114 108
Southern Sun Waterfront	Waterfront, Cape Town	Upscale	537		1 186 176
Radisson Blu Waterfront	Waterfront, Cape Town	Upscale	177	519 292	
Protea Hotel Victoria Junction	Waterfront, Cape Town	Upscale	172	330 505	
Southern Sun Newlands	Newlands, Cape Town	Upscale	162	140 871	
StayEasy Century City	Milnerton, Cape Town	Midscale	175	284 834	
Sunsquare Cape Town Gardens	Gardens, Cape Town	Midscale	136	121 766	
Western Cape total			**2 381**	**3 436 999**	**2 300 284**
GAUTENG					
Mount Grace Country House & Spa	Magaliesburg	Luxury	121	132 147	
Crowne Plaza Rosebank	Rosebank, Johannesburg	Upscale	318	308 545	
Holiday Inn Sandton	Sandton	Upscale	301	309 549	
Radisson Blu Gautrain	Sandton	Upscale	220	471 513	
Southern Sun Katherine Street	Sandton	Upscale	122		86 175
Birchwood Executive Hotel and Conference Centre	Boksburg	Midscale	665	587 374	
Garden Court OR Tambo	Kempton Park, Johannesburg	Midscale	253	333 833	
Garden Court Milpark	Auckland Park, Johannesburg	Midscale	251	324 210	
Garden Court Morningside	Sandton	Midscale	150		171 334
Garden Court Hatfield	Hatfield Pretoria	Midscale	157		170 266
Garden Court Eastgate	Bruma, Johannesburg	Midscale	157		151 389
StayEasy Eastgate	Bruma, Johannesburg	Midscale	135		86 423
Kopanong Hotel and Conference Centre[1]	Benoni	Midscale	168	65 610	
Gauteng total			**3 018**	**2 532 780**	**665 587**

Champagne Sports Resort Central Berg – KwaZulu-Natal

Property name	Property location	Star grading	Number of rooms	Valuation March 2017 (R'000)	Acquisition cost effective 1 July 2017
REMAINDER OF SOUTH AFRICA					
Champagne Sports Resort	Central Berg, KwaZulu-Natal	Upscale	152	348 488	
Southern Sun Bloemfontein	Bloemfontein, Free State	Upscale	147	126 427	
Protea Edward	OR Tambo Parade Drive, Durban, KwaZulu-Natal	Upscale	131	200 709	
Protea Hotel Marine	Port Elizabeth, Eastern Cape	Upscale	114	134 159	
Garden Court South Beach	South Beach, Durban, KwaZulu-Natal	Midscale	414	728 849	
Garden Court Polokwane	Polokwane, Limpopo	Midscale	180	276 811	
Garden Court Kimberley	Kimberley, Northern Cape	Midscale	135	128 989	
Garden Court Kings Beach	Port Elizabeth, Eastern Cape	Midscale	280		190 305
Garden Court Umhlanga	Umhlanga, KwaZulu-Natal	Midscale	204		298 942
StayEasy Pietermaritzburg	Pietermaritzburg, KwaZulu-Natal	Midscale	127		137 199
StayEasy Rustenburg	Rustenburg, North West	Midscale	125	133 328	
Protea Hotel Hazyview	Hazyview, Mpumalanga	Midscale	87	79 107	
Remainder of South Africa total			**2 096**	**2 156 867**	**626 446**
SUN1 HOTELS					
Sun1 Alberton	Alberton, Johannesburg, Gauteng	Economy	76		69 410
Sun1 Benoni	Benoni, Johannesburg, Gauteng	Economy	58		24 334
Sun1 Berea	Berea, Johannesburg, Gauteng	Economy	69		32 132
Sun1 Bloemfontein	Bloemfontein, Free State	Economy	64		35 230
Sun1 Cape Town	Cape Town, Western Cape	Economy	64		60 005
Sun1 Edenvale	Edenvale, Johannesburg, Gauteng	Economy	76		11 786
Sun1 Kimberley	Kimberley, Northern Cape	Economy	64		21 841
Sun1 Midrand	Midrand, Gauteng	Economy	94		88 022
Sun1 Milnerton	Cape Town, Western Cape	Economy	70		67 516
Sun1 Nelspruit	Nelspruit, Mpumalanga	Economy	76		52 042
Sun1 OR Tambo	Kempton Park, Johannesburg, Gauteng	Economy	78		33 244
Sun1 Parow	Cape Town, Western Cape	Economy	76		64 796
Sun1 Port Elizabeth	Port Elizabeth, Eastern Cape	Economy	88		69 922
Sun1 Pretoria	Pretoria, Gauteng	Economy	135		135 612
Sun1 Richards Bay	Richards Bay, KwaZulu-Natal	Economy	64		27 774
Sun1 Southgate	Mondeor, Johannesburg South, Gauteng	Economy	138		91 231
Sun1 Vereeniging	Vereeniging, Gauteng	Economy	41		16 462
Sun1 Witbank	Emalahleni, Mpumalanga	Economy	90		29 881
Sun1 Wynberg	Sandton, Johannesburg, Gauteng	Economy	87		30 229
Sun1 Hotels total			**1 508**		**961 469**
Total			**9 003**	**8 126 646**	**4 553 786**

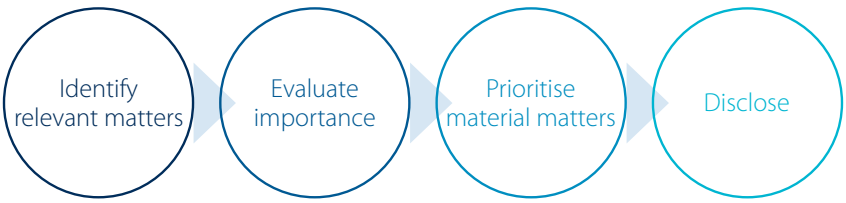
[1] Classified as non-current asset held for sale.

Our material risks and opportunities

Determination of materiality

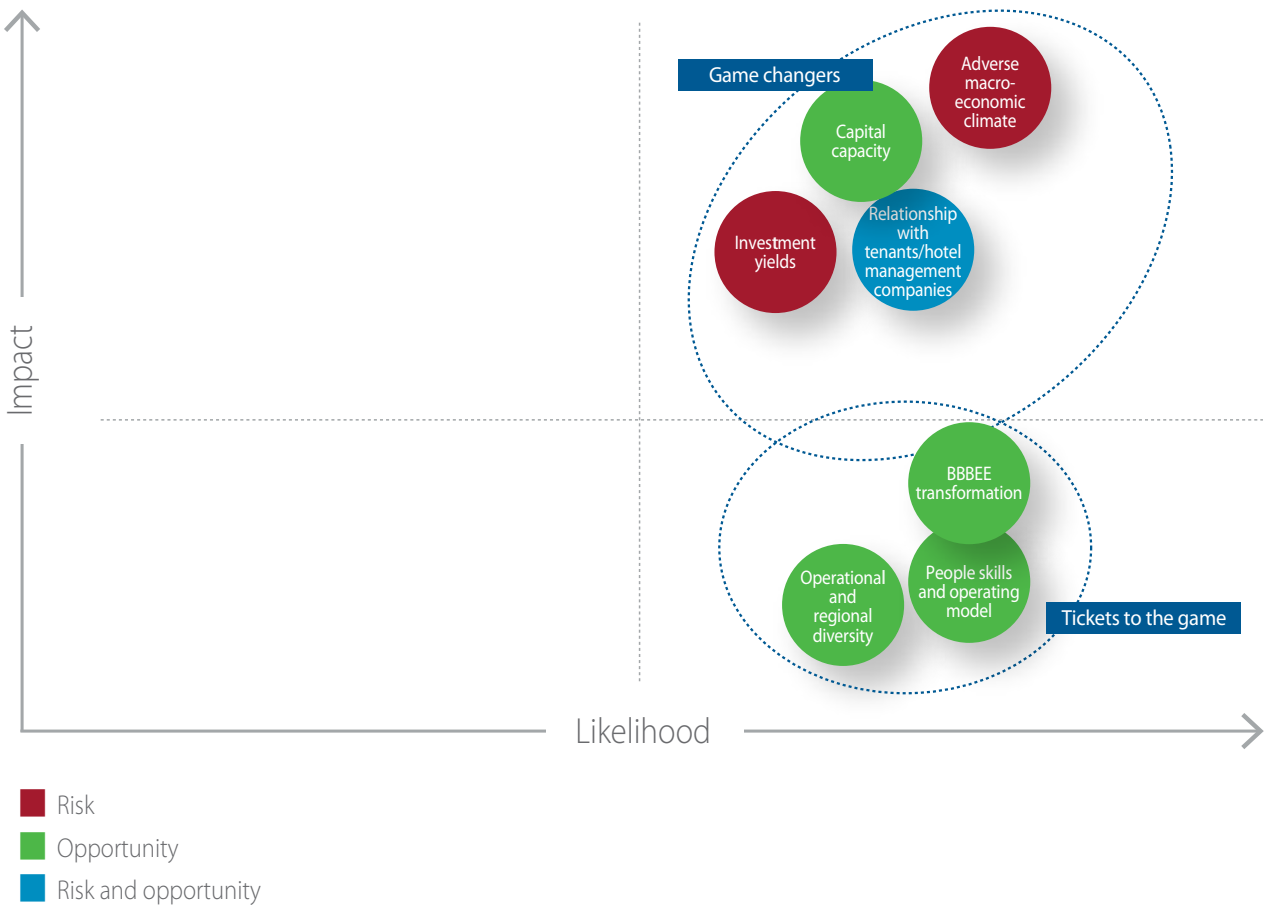
In line with the IIRC's <IR> framework on materiality, the report includes all such information about matters that substantively affect the Company's ability to create and sustain value.

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. Those that are indirect and impact our tenants and hotel managers have been excluded. We compared the matters identified with those being reported on by our peer group to check that relevant matters have not been excluded from the report.

Our material risks and opportunities linked to strategic response



What it means for us

Material risks and opportunities

Material matters	Context/description	Response Associated strategic priorities
1. Adverse macro-economic climate **Risk**	Hospitality's operations are focused in South Africa and are affected by the cyclical and seasonal nature of the hospitality industry, resulting in volatility of distributable income. The current uncertain domestic economic and political environment impacts Hospitality's business and has an effect on distributions, property market values and development costs. In addition, this puts pressure on the credit risk associated with our tenants and hotel management companies are also impacted by their guests' ability to settle debt during recessionary times. Property valuations and distributions are impacted by financing costs and the recent sovereign downgrade in South Africa has a negative impact on the cost of debt.	**Financial strength and durability** P31 **Product relevance** P32 **Portfolio management** P33 **Acquisitions** P36
2. Capital capacity **Opportunity**	As an investor in the South African hospitality industry, ensuring the capital capacity to fund value-enhancing acquisitions as well as capital investments that improve yields within the existing portfolio is a significant opportunity for Hospitality. An indirect benefit is the potential for job creation by the hotel management companies. With additional debt capacity and unutilised authorised shares, the Fund has the capacity to pursue attractively priced property acquisitions in the current economic environment. Hospitality's REIT status, which means that the majority of profits are distributed to shareholders, necessitates that new acquisitions be funded through share issues or by taking on additional debt. The recent simplification of Hospitality's capital structure into a single class of ordinary shares has significantly improved its ability to fund acquisitions through the equity market. Distributions need to balance our cash requirements for reinvestment with shareholder expectations. We need to ensure that we have sufficient flexibility to adapt to prevailing economic conditions and cash for reinvestment to maintain and improve the portfolio.	**Financial strength and durability** P31 **Product relevance** P32 **Acquisitions** P36
3. Relationship with tenants/hotel management companies **Risk and opportunity**	There is a symbiotic relationship with the hotel management companies who run the hotel operations on behalf of the tenants and the Fund: – The Fund's variable rental income streams are impacted by the performance of individual properties, which are dependent on the economy as well as the quality of the facilities and the services offered. – Similarly, the hotel manager is incentivised to maximise their revenue through occupancy and rate, as well as their gross operating profits in order to increase their management fees. – Effective contract management ensures that contractual terms and performance targets are met, to the ultimate protection of both parties. – The quality of hotel properties is directly linked to the experience of customers and a lack of regular maintenance can lead to product obsolescence.	**Financial stability and durability** P31 **Product relevance** P32 **Portfolio management** P33 **Business intelligence** P35
4. Investment yields **Risk**	Major refurbishments and acquisition opportunities are considered and assessed, understanding the fit within the total portfolio from a location and grading perspective as well as the macro-economic outlook, yield potential and funding considerations. The Fund's asset management functions and ongoing monitoring of hotel performance through data analytics as well as unlocking efficiencies assists in maximising the earning potential of the hotel while partially mitigating the risk.	**Financial stability and durability** P31 **Product relevance** P32 **Portfolio management** P33 **Business intelligence** P35 **Acquisitions** P36

Our material risks and opportunities continued

Material matters	Context/description	Response Associated strategic priorities
5. BBBEE transformation **Opportunity**	We have achieved an improved BBBEE rating from level 4 to level 1 through the change of our majority shareholding. The improved score empowers our tenants to increase their score (Hospitality being their biggest 'supplier') and in turn should result in increased government business and new business for these hotels due to the increased BBBEE score.	**Financial strength and durability** P31 **Portfolio management** P33
6. People skills and operating model **Opportunity**	The skills and experience of the executive team, supported by the board of directors, match the strategy and operating model of the Fund. The Fund has good working relationships with the full range of development professionals, reliable contractors and specialist hospitality suppliers. They are assessed and qualify as approved vendors within the procurement system.	**Business intelligence** P35 **Portfolio management** P33
7. Operational and regional diversity **Opportunity**	Hospitality's geographic diversification has improved with the acquisition of properties from Tsogo Sun. The Fund currently has 53 properties. The diversity in property grading caters to the varying budgets and preferences for guests of all income groups. The diversity in brands offers a range of products to international and domestic markets.	**Financial stability and durability** P31 **Acquisitions** P36

We have provided an analysis of the business environment, our enterprise risk management and stakeholder engagement below, to provide more context to our material risks and opportunities and how we determined them.

Our business environment and developing trends

Hotel trading continues to be impacted by the weak domestic economy and political uncertainty. According to PwC, occupancy levels across South African hotels have maintained a positive trend and increased to 61.2% in 2016 and is forecast to increase to 62.2% in 2017. Overall revenue from hotel room accommodation in South Africa rose 12.2% to R15.8 billion in 2016, driven by a higher overall ARR, which grew 8.9% to R1 160. This was led by a recovery in the number of foreign overnight visitors to South Africa. PwC forecasts that hotel room revenue will grow 10.1% in 2017 to R17.5 billion.

Foreign tourism recovered in 2016 with the number of foreign overnight visitors increasing by 12.8% (2015: a decline of 6.8%) as more stringent visa requirements that had been introduced in 2015 were relaxed.

Dynamics in the hotel industry have seen supply increased by only 700 rooms between 2011 and 2016. This has supported increased rates and occupancies. However, hotel development in South Africa is accelerating with a forecast of 4 484 additional rooms to be added in a total of 33 hotels across South Africa. This has more than doubled since a year ago by 11 hotels with 2 058 rooms under construction. Over the next five years, more than half of all additional rooms will be added in Cape Town.

PwC anticipates that the number of available rooms will rise at 0.9% compound annual rate to 63 900 in 2021 (2016: 61 200) and that guest nights will grow at a 1.8% compound annual rate to 15.0 million in

2021 (2016: 13.7 million), with occupancy increasing to 64.3% in 2021 (2016: 61.2%). Overall hotel room revenue is expected to expand at a 9.3% compound annual rate to R24.8 billion in 2021 from R15.9 billion in 2016.

The continued uncertainty in the local economy is expected to put continued pressure on domestic holidaymakers while simultaneously reducing the affordability of international leisure travel, with some vacationers opting to travel locally.

Source: PwC Hotels Outlook: 2017 – 2021

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 and honest and 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.

Hospitality has both direct and indirect stakeholders (being the stakeholders of our 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 our 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.

Stakeholder groups (direct)	Nature of engagement	Issues and expectations	Link to material matters
Investors and funding institutions	– JSE news services – Media releases and published results – Integrated reports and financial statements – Annual general meetings and general meetings – Dedicated analyst and investor presentations – Hospitality website	– Sustainable growth and returns on investment – Distribution announcements – Dividends – Risks and opportunities of expansion – Transparent executive remuneration – Corporate governance and ethics – Liquidity and gearing	Capital capacity, adverse macro-economic conditions, investment yields
Tenants (hotel management companies)	– Monthly 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 meetings attended to ensure good governance – Annual audits, sign off of annual accounts and audited rental certificates obtained	– Absolute and relative performance – Benchmarking and strategising – Trading environment – Capital investment requests – Maintenance of contract terms – Good governance practices	Relationship with tenants/hotel management companies, investment yields
Professional suppliers and business partners	– Vetted and approved development and maintenance suppliers – Vetted and approved specialist FF&E suppliers – Development consultants	– Future business opportunities – Relationships – Project performance – Level and standard of service	Relationship with hotel tenants/management companies, investment yields

Our material risks and opportunities continued

Stakeholder groups (direct)	Nature of engagement	Issues and expectations	Link to material matters
Employees	– 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	– 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
Government and regulatory authorities	– Establish constructive relationships – Comment and interaction on developments in legislation – Membership of industry bodies, eg SA REIT Association	– Compliance with legislation – Job creation – Investment in public and tourism infrastructure – Investment in disadvantaged communities – Reduction in energy and water consumption	BBBEE transformation, capital capacity

Enterprise risk management

Hospitality is of the view that risk governance is essential to its sustainable business performance and the realisation of its strategic management and operational objectives.

The governance of risk

The board has overall responsibility for the governance of risk. The audit and risk committee ('the committee') is mandated to ensure that the responsibilities delegated to the risk management committee ('Riskco'), represented by executive management, are carried out in accordance with the risk governance framework approved by the board. The committee recommends the risk governance framework, risk policy, risk management plan and top risks to the board for approval at least annually. It then oversees that risks are appropriately managed and reported. The Fund's risk register comprises risk events which may have an effect on the Fund's strategic objectives as identified by various risk owners in the area of their responsibility and expertise. These include portfolio management, finance and treasury management, to name a few. Indirect risk events identified at property level, by the responsible risk owner which may have an effect on the Fund's strategic objectives are raised and monitored on an ongoing basis.

The three tiers of the Fund's risk governance framework are illustrated in the graphic below:

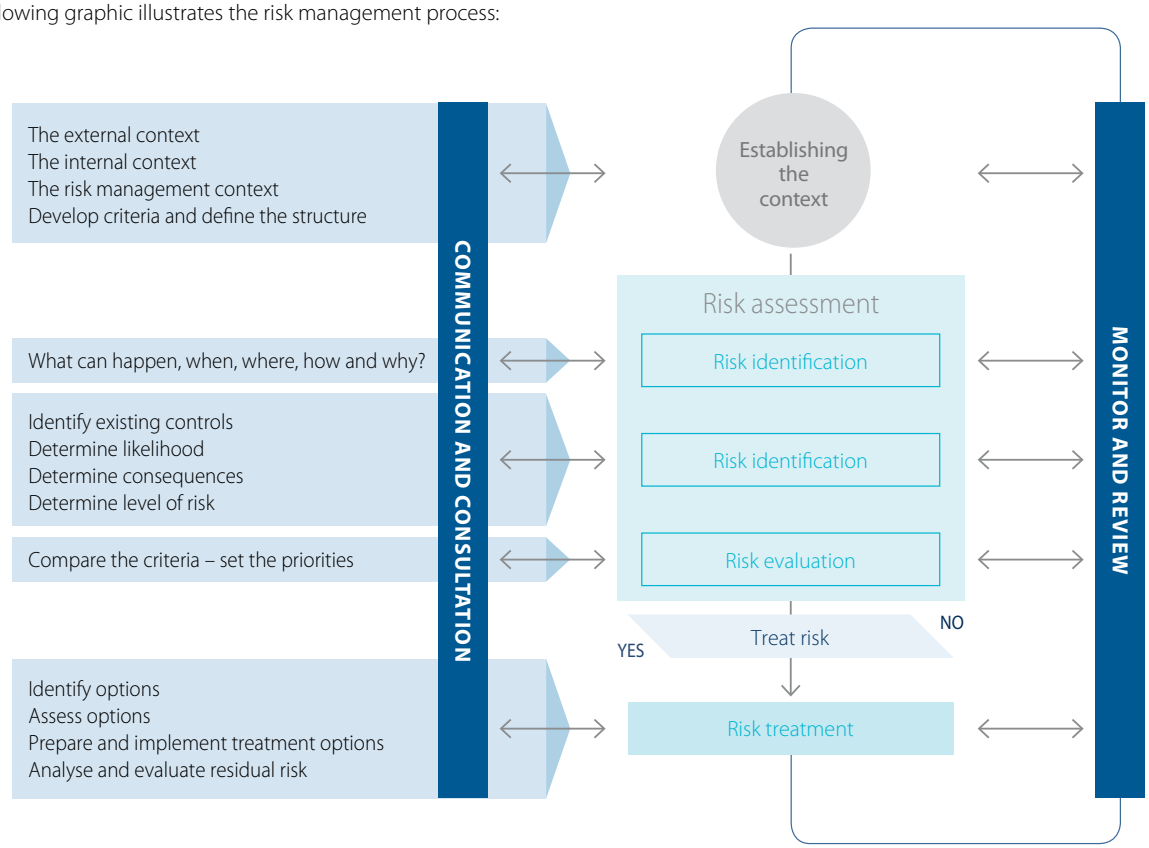
The risk management approach

The group's risk management approach is primarily based on the principles and guidelines of ISO 31000 risk management architecture adapted, where necessary, to the needs of the organisation and complemented, where appropriate, by the risk and Insurance Management Society risk maturity model. This approach is designed to:

- create and protect value in the context of the social and cultural factors facing the organisation;
- suit the environment of each business area and integrate with the business operations;
- support decision-making based on best available and timely information;
- deal with uncertainty through being dynamic, responsive, and iterative;
- facilitate continual improvement and develop organisational capacity;
- be transparent, inclusive, relevant; and
- identify risks per property and align with the Fund's strategic objectives.


StayEasy Rustenburg

The following graphic illustrates the risk management process:



Our strategy and growth drivers

Strategy

Completing the first acquisition of 10 properties from Tsogo Sun and the simplification of our capital structure into a single-share class provided us with the opportunity to develop our strategy as outlined in the Chairman and CEO's report on page 5. We believe that this strategy provides us with a comprehensive framework to deliver value to our shareholders and stakeholders.

Purpose

To invest in quality properties in the South African hospitality industry.

Strategic objectives and enablers

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

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

Acquisitions — Continue to seek value-accretive acquisitions that are well diversified both geographically and across brand segments

A proactive and responsive strategy

As our operating environment changes and the nature of our operations evolves, our strategy is continuously reviewed to ensure that it proactively responds to our material risks and opportunities.

How we intend to demonstrate our strategy

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

Our leadership reports provide an overview of how the strategy has developed over the year and how we have performed against the strategy, as well as our view of the outlook and future focus areas.

We have provided further insight into our strategy in action in our performance report back on pages 30 to 36.

Future growth drivers

Hospitality industry's economic cycle

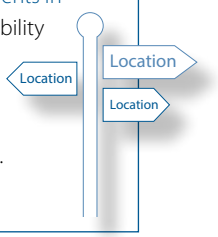
The hotel economic cycle is generally closely tied to the macro-economic phases moving through either the expansionary phase, the contractionary phase or the switchover phase. The cyclical and seasonal nature of the business links into the macro-economic environment and key analytics on trends remain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

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.

Location

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



Brand affiliation

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

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 relevant products.

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.

Focus

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.

Arabella Hotel and Spa – Hermanus

Financial Director's overview

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 nine months ended 31 March 2017, grew by 57% on the comparative nine month period (like-for-like comparison – refer to the reporting period definitions on the contents page).

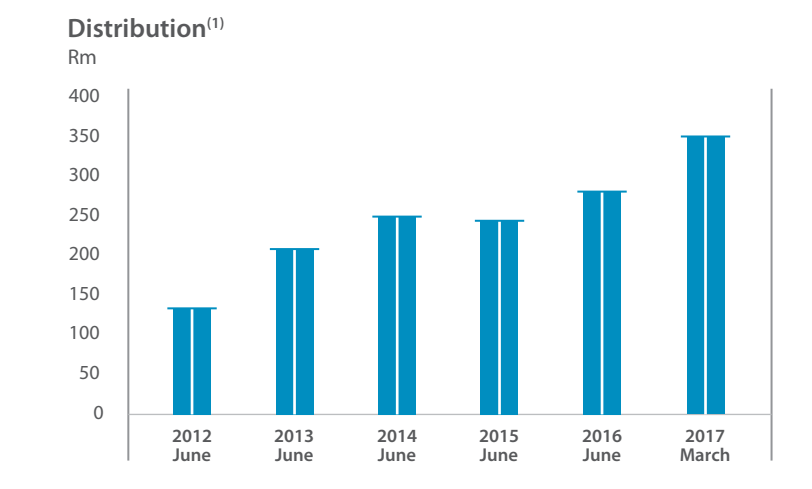
The nine months ended 31 March 2017 incorporated the completion of the acquisition of the entire share capital of Fezisource Proprietary Limited (Fezisource), a letting operation owning 10 hotels, from Southern Sun Hotels Proprietary Limited, a subsidiary of the Tsogo Sun Group. The nine months also incorporated the completion of the restructure of the Company's dual-class share capital structure to a single-class share capital structure, in the ratio of one ordinary share for every A share held and one ordinary share for every 3.5 B shares held ('the restructure'), which brought about the alignment of shareholder objectives.

Distribution

The board declared a distribution of 44.92 cents per share for the three months ended 31 March 2017 resulting in the total distribution per share for the nine months of 101.01 cents per share (excluding the clean out dividend, declared as at 31 August 2016, to A shareholders of 9.29 cents per share). The Fund's distributable earnings for the nine month comparable period (nine months to 31 March 2016) increased by 57% to R345 million, mainly due to the inclusion of the 10 properties effective from 1 September 2016. The Fund currently owns 24 properties valued at R8.1 billion compared to 15 properties valued at R5.2 billion in the prior year.

Hospitality changed its financial year end from June to March during the period under review. This was done to align Hospitality's financial year end with that of its controlling shareholder, Tsogo Sun. For the purpose of comparison and to mitigate the effect of the seasonality in the nine month results, an illustrative nine month period (being the same nine month period in the prior year) is largely used to compare the year end information.

Mara de Lima
Financial Director



(1) *The distribution per share has not been used for measurement in the current year due to the restructure of the capital structure in the current period.*

Financial Director's overview continued

Condensed consolidated statement of financial position

as at 31 March 2017

	Audited March 2017 R'000	Audited June 2016 R'000
ASSETS		
Non-current assets	**8 063 583**	5 174 459
Investment properties	**8 061 038**	5 169 000
Furniture, fittings and equipment	**198**	180
Derivative assets	**1 870**	4 961
Investment in associates	**477**	318
Current assets	**391 480**	404 128
Non-current assets held for sale	**65 610**	129 491
Properties held for trading	**–**	22 643
Derivative assets	**280**	699
Trade and other receivables	**115 536**	57 035
Cash and cash equivalents	**210 054**	194 260
Total assets	**8 455 063**	5 578 587
EQUITY AND LIABILITIES		
Equity	**6 597 503**	3 732 253
Stated capital	**5 565 258**	2 909 957
Retained earnings	**138 719**	107 961
Fair value reserve	**893 526**	714 335
Non-current liabilities	**1 491 006**	1 126 540
Interest-bearing liabilities	**1 488 493**	1 125 063
Derivative liability	**2 514**	1 477
Current liabilities	**366 554**	719 794
Trade and other payables	**111 876**	95 552
Short-term portion of interest-bearing liabilities	**230 000**	600 000
Provision for shareholder redemption	**24 129**	24 129
Derivative liability	**548**	113
Total equity and liabilities	**8 455 063**	5 578 587

Commentary

Investment property increased by R2.7 billion due to the acquisition of Fezisource, increase due to capital investment of R73 million and decreased by R108 million, before the fair value adjustment of R205 million.

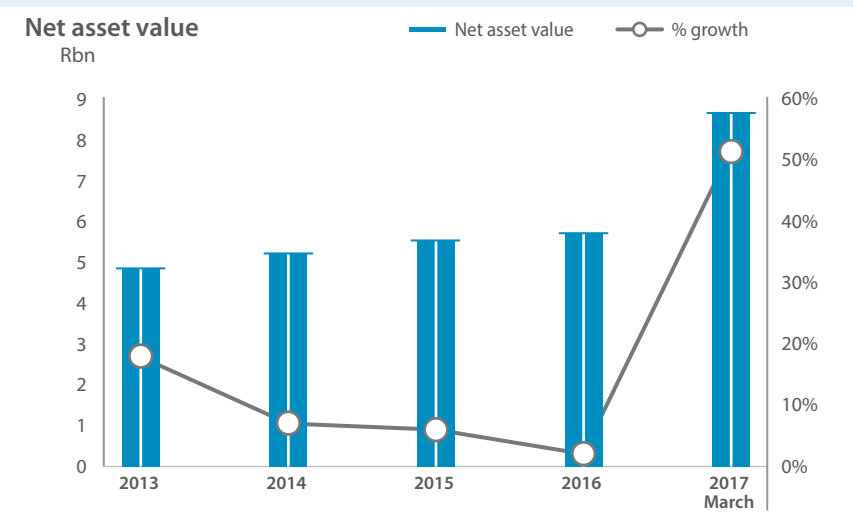
Investment property movement	
Opening	5 169 000
Acquisitions: Fezisource	2 657 717
Capital investment: refurbishments	73 262
Disposals: The Inn on the Square	(107 639)
Fair value adjustment	205 333
Transfer to asset held for sale	63 365
Closing	8 061 038

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

The acquisition of Fezisource was funded through the issue of 145 million shares to the value of R2.7 billion.

The group's debt facilities with financial institutions as at 31 March 2017 amounted to R2.0 billion. Total drawn facilities were R1.7 billion resulting in a loan to value ('LTV') ratio (total interest-bearing liabilities/ investment properties plus properties held for sale) of 21.1% (2016: 32.4%). The reduction in the gearing ratio is mainly due to the acquisition of the ungeared Fezisource portfolio. The interest cover ratio improved to 4.0 times (2016: 2.7 times), well above the required debt covenant limit of 2.0 times.

The weighted average lease expiry period is 13.4 years. As at 31 March 2017, the carrying amount of the portfolio was R8.1 billion and the net asset value ('NAV') per ordinary share amounted to R19.89. The market value per share at 31 March 2017 traded at a 30% discount to the NAV.



Distributable income statement

	Audited nine months March 2017 R'000	Audited year June 2016 R'000	Illustrative nine months March 2016 R'000
Revenue	**498 803**	474 328	369 956
Rental income – contractual	**498 803**	474 553	370 181
– straight-line accrual	**–**	(225)	(225)
Operating expenses	**(38 858)**	(44 852)	(32 052)
Operating profit	**459 945**	429 476	337 904
Profit/(loss) on sale of investment properties	**36 528**	(13 556)	(13 556)
Goodwill impairment	**(16 003)**	(12 000)	–
Net finance cost	**(115 504)**	(158 085)	(118 289)
Equity-accounted profit from associate	**409**	264	2 694
Non-cash adjustments	**(20 525)**	25 781	13 781
Taxation	**–**	(9)	–
Distributable profit	**344 850**	271 871	222 534

Commentary

Rental income for the comparable nine month period increased by 35% and includes the impact of the additional 10 properties and the disposal of eight properties in the current and prior periods. Hospitality's rental income is subject to seasonal variability and the nine months to 31 March 2017 included a robust summer period in the Western Cape.

Rental income on an annual comparison*, for a 12-month comparable period, grew by 10% (adjusted for the acquisitions and the disposal of investment properties).

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

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 R116 million (2016: R118 million) declined in line with debt levels, with a weighted average cost of net debt of 10.4%.

Equity-accounted profit from Vexicure Proprietary Limited.

Non-cash adjustments relate to the profit of sale of the investment properties and the goodwill impairment.

Subsequent events

Hospitality concluded the acquisition with Tsogo Sun to acquire 100% of the share capital in The Cullinan Hotel Proprietary Limited and Merway Fifth Investments Proprietary Limited, effective 1 July 2017. The acquisition of the portfolio includes 29 letting operations for an aggregate purchase consideration of R3.6 billion, which was calculated on an income-for-income basis. The acquisition 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.

HPF Properties Proprietary Limited, a wholly owned subsidiary of Hospitality has 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 21 August 2017.

Prospects

Growth in hotel trading is expected to remain under pressure given the weak economic growth prospects in South Africa. Growth will depend on the economy's future performance and the degree of policy certainty emanating from the government going forward. The Fund remains positive that the rental income that it derives from its tenants is well diversified, both geographically and in terms of product offering across brand segments. The ability to continue pursuing opportunities in line with the Fund's investment strategy is closely aligned to the ongoing performance of the hotels, which is enabled through our strategic objectives.

** Refer to reporting period definitions on the contents page.*

Performance review

Performance analysis

We have provided further insight into our strategy in action and operations, in our performance report back, section structured as follows:

Our performance

Strategic objectives

Sustain

Strategic enabler

1. **Financial strength and durability:** An appropriate capital structure and distribution policy to ensure the business survives through the economic cycles. P31
2. **Product relevance:** Own and maintain a variety of quality properties that are relevant in their markets. P32

Optimise

Strategic enabler

1. **Portfolio management:** Optimise operational efficiencies and grow rental income through effective contract management and robust tenant relationships. P33
2. **Business intelligence:** Build and refine internal processes and systems to support portfolio management and decision-making. P35

Grow

Strategic enabler

1. **Acquisitions:** Continue to seek value-accretive acquisitions that are well diversified both geographically and across brand segments. P36

Responsiveness test

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

	Strategic objectives		
	Sustain	**Optimise**	**Grow**
Adverse macro-economic climate	**Yes**	Yes	**Yes**
Capital capacity	**Yes**		**Yes**
Relationship with tenants/hotel management companies	**Yes**	Yes	
Investment yields	**Yes**	Yes	**Yes**
BBBEE transformation	**Yes**	Yes	
People skills and operational model		Yes	
Operational and regional diversity	**Yes**		**Yes**

Radisson Blu Gautrain – Sandton

Sustain

Financial strength and durability

Key performance indicators	**9 months 31 March 2017**	12 months 30 June 2016
Distributable earnings	**R345 million**	R272 million
Distribution per share	**105.09 cents per share**	148.54 cents per combined A and B shares
Interest cover ratio	**4.0x**	2.7x
Loan to value	**21.1%**	32.4%
Average cost of net debt	**10.4%**	10.0%
Market capitalisation	**R4.6 billion**	R2.1 billion

Related material issues

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

Approach

- As a REIT, the majority of our profit (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.
- Our debt covenants require a LTV below 40%.

2017 performance

- The dual-share structure was collapsed into a single-class capital structure with effect from 11 October 2016, bringing about the alignment of shareholder objectives. The terms of the restructure awarded one ordinary share for every A share held and one ordinary share for every 3.5 B shares held.
- Authorised share capital increased from 600 million shares to 2 billion shares, in order to complete the acquisition of 29 hotel properties from Tsogo Sun and providing headroom to raise further equity funding for future acquisitions.
- R600 million of secured notes under the DMTN were rolled over at a lower variable rate of three-month JIBAR + 1.2%, a reduction of between 0.8% and 1.18%.
- The increased geographic diversification resulting from the acquisition of properties from Tsogo Sun has reduced the risk of the Fund's overall rental income streams.

2018 objectives/future outlook

- 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.
- Provide increased flexibility in relation to providing collateral to funders to improve financing costs.
- Leverage increased scale and reduced gearing to achieve lower costs on net 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.

Performance review continued

Product relevance

Key performance indicators	**9 months 31 March 2017**	12 months 30 June 2016
Capital expenditure	**R73.3 million**	R115.6 million
Capital expenditure as % of rental income	**14.7%**	24.5%
Disposals	**One property for R157 million**	Seven properties for R206 million

Related material issues

- Adverse macro-economic climate
- Capital capacity
- Relationships with tenants/ hotel management companies
- Investment yields

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 to 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.

2017 performance

- The number of major property refurbishments taken on by Hospitality during the year was temporarily scaled down, as the new management team came on board and the 10 properties acquired from Tsogo Sun were integrated into the Fund. Due to the change in year end, the reporting period was also shortened to nine months.
- Total capital expenditure in 2017 amounted to R73 million. Some of the larger projects included the refurbishment of and security upgrades to the Westin; the upgrade of the spa and refurbishment of the corridors at the Radisson Waterfront; and refurbishments to some of the conference rooms and bedrooms at the Birchwood Hotel and Conference Centre.
- The Inn on the Square, which did not meet the Fund's investment strategy, was disposed of for a gross cash consideration of R157 million (before deducting break fees of R12 million) on 20 November 2016.
- Two sectional title units at the Kopanong Hotel and Conference Centre, also on Hospitality's disposal list, were sold during the period for R2 million.

2018 objectives/future outlook

- A major refurbishment of the Westin Cape Town is currently in the planning stages. It is envisaged that the project will be phased over two years and the investment case is being evaluated in light of a number of factors including the macro-economic climate.
- 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.

Optimise **Portfolio management**

Key performance indicators	**9 months 31 March 2017**	12 months 30 June 2016
Contractual rental income	**R499 million**	R475 million
Annual comparison (see contents page)	**31 March 2017**	31 March 2016
Occupancy	**65.5%**	63.2%
ARR	**R1 218**	R1 145
Revpar	**R797**	R732
BBBEE level	**Level 1**	Level 4

Related material issues

- Adverse macro-economic climate
- Relationship with tenants/ hotel management companies
- Investment yields
- People skills and operating model
- BBBEE transformation

Approach

Our asset management approach is outlined in detail in our business model (see pages 12 and 13).

2017 performance

- Hospitality is focusing on building relationships with all hotel management companies. The underlying approach has been to communicate honestly, fairly and transparently.
- Rental income for the nine month 'like-for-like' period (see contents page) increased by 35% to R499 million (2016: R370 million) and includes the impact of the acquisitions and the disposals of investment properties in the current and prior periods.
- Rental income on an 'annual comparable' period (see contents page), grew by 10% (adjusted for the impact of the first transaction and the disposal of investment properties).
- Hospitality performed slightly ahead of the market on occupancy, average daily rates ('ARR') and revenue per available room ('Revpar'). Room occupancy grew 2.3% to 65.5%, marginally higher than STR-reported occupancy of 65.2% for South African hotels and ARR grew by an above inflation 6.4% to R1 218 versus R1 203 for the industry. This resulted in Revpar growth of 8.9% to R797 and compares favourably with the STR reported Revpar growth for South African hotels of 9.8%.
- Our Western Cape properties, predominantly located in the Cape Town CBD performed well. Room occupancy grew 4.8% to 71.1% while ARR grew by 7.4% to R1 751 and resulted in Revpar growth of 12.6% to R1 245, while Revpar growth for the Western Cape properties participating in the STR survey was 17.9%. This was off a lower base than that of the Fund and was driven by aggressive growth in the ARR of the participating 4- and 5-star hotels.
- Our Gauteng properties increased occupancy to 60.4%, a growth of 1.9% while ARR grew by 4.0%, resulting in Revpar growth of 6.0% which compares favourably with the growth in Revpar of 4.5% for the STR participating hotels in Gauteng.
- Our portfolio is diversified in terms of location and grading with the acquisition of 10 additional properties from Tsogo Sun in September 2016, and the subsequent addition of 29 properties (post-year end).
- The improved BBBEE rating (level 1) achieved by Hospitality as a result of our majority shareholder, empowers our tenants to increase their rating (Hospitality being their biggest 'supplier') and could result in increased business for these hotels.

Note: Annual comparison (refer to reporting period definitions on contents page.).

2018 objectives/future outlook

- 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.
- 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.

Performance review continued

Occupancy, ARR and Revpar analysis*

Occupancy	FY2013	FY2014	FY2015	FY2016	**FY2017**
Western Cape	65,6%	66,7%	65,9%	67,9%	**71,1%**
Gauteng	57,4%	57,6%	58,0%	59,1%	**60,4%**
Rest of SA	67,0%	68,9%	68,5%	68,2%	**68,3%**
Total	62,1%	63,1%	62,9%	64,0%	**65,5%**

ARR	FY2013	FY2014	FY2015	FY2016	**FY2017**
Total	870	972	1 042	1 144	**1 218**

Revpar	FY2013	FY2014	FY2015	FY2016	**FY2017**
Total	540	613	656	732	**797**

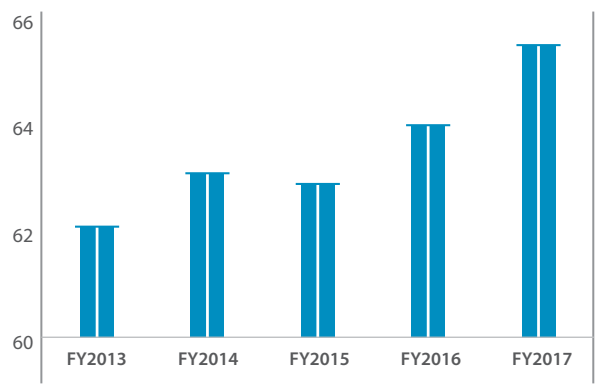
** Includes Hospitality's portfolio of 24 properties April to March excluding Champagne Sports Resort.*

SA hotel industry*

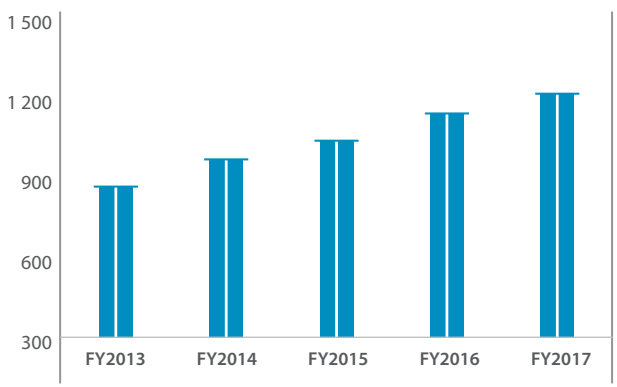
Revpar	FY2013	FY2014	FY2015	FY2016	**FY2017**
Total	556	608	648	714	**784**

** STR Global South African Review: April to March.*

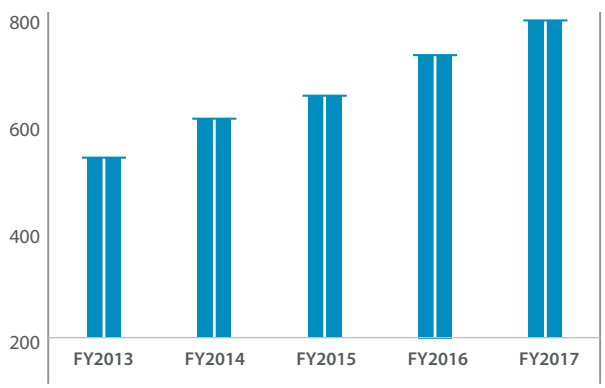
Occupancy (%)



ARR (R's)



Revpar (R's)



Business intelligence

Related material issues

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

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 available to management immediately.

2017 performance

- Significant progress has been made in streamlining internal systems and processes and aligning these services infrastructure.
- Hospitality has planned the implementation of new systems and business intelligence tools to improve its ability to monitor performance, benchmark performance within the portfolio and the industry, analyse acquisitions and support decision-making.

2018 objectives/future outlook

- 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. The portfolio of hotels will increase to 53 hotels and some 9 000 rooms.

Garden Court OR Tambo – Johannesburg

Performance review continued

Grow

Acquisitions

Key performance indicators	31 March 2017	30 June 2016
Property portfolio value	**R8.1 billion**	R5.2 billion
Number of properties	**24**	15
Net asset value per share	**R19.96**	R12.93

Related material issues

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

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 acquisitions across a number of criteria including macro-economics, location and grading, yield potential, LTV ratio and debt sourcing options.

2017 performance

- With effect from 1 September 2016, the acquisition of 10 hotel properties and Hospitality's inclusion in the Tsogo Sun group provided us with future growth prospects and an attractive pipeline of acquisitions in the medium term. The acquisition grew our portfolio from 15 to 24 properties.
- We elected to measure investment properties at fair value. The fair value is determined by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate.
- The weighted average lease expiry period is 13.4 years. As at 31 March 2017, the carrying amount of the portfolio was R8.1 billion and the net asset value (NAV) per ordinary share amounted to R19.96. The market value per share at 31 March 2017 traded at a 30% discount to the NAV.

2018 objectives/future outlook

- As announced on 18 May 2017, we entered into transaction agreements with Tsogo Sun to acquire 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. The aggregate purchase consideration amounted to R3.6 billion, to be settled by R1.0 billion in cash and R2.6 billion in shares. This transaction was approved by shareholders post-year end on 10 July 2017 and was effective from 1 July 2017. It has further broadened Hospitality's earnings base, brand and product offering, resulting in greater presence in primary metropolitan areas, by the addition of 3 771 rooms catering for business, leisure and budget conscious travellers.
- The acquisition of sections and exclusive use areas in the Sandton Eye sectional title development increasing the Fund's interest in the scheme from 58.13% to 81.54% 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 21 August 2017.

Southern Sun Newlands – Cape Town

Sunsquare Cape Town Gardens

Westin Cape Town

Corporate governance

The period under review has seen a number of changes in the governance structure of the group.

The interest of our majority shareholder, Southern Sun Hotels Proprietary Limited (a wholly owned subsidiary of the Tsogo Sun group) in Hospitality increased from 27.5% to 50.6% and Hospitality's board expanded from 8 to 14 members, while retaining the composition requirements of King III.

The board appointed a new Chairman and a lead independent director as well as a new Chief Executive Officer and Financial Director.

An independent acquisition committee was established to deal with related-party transactions. The committees of the board were reconstituted and the audit and risk committee was strengthened with an additional member.

Key policies, which include human resources policies, the Company's remuneration policy and employment contracts as well as the Company's internal accounting system, were all aligned to that of its majority shareholder.

The Competition Tribunal approved the acquisition by Hospitality of 10 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.

KPMG Inc. (the Fund's previous external auditor) resigned due to the risk of impairment of independence following the acquisition transaction, which resulted in Hospitality becoming a subsidiary of Tsogo Sun. PwC Inc. succeeded KPMG Inc. as Hospitality's external auditor.

Governance framework

Board

Maintains control of the Company and is responsible for its performance, compliance and strategic direction.

Comprises seven independent non-executive directors, two executive directors and five non-executive directors

Financial integrity, risk and compliance	Fairness of related party transactions	Board composition, diversity and succession	Fair remuneration and performance measurement	Ethical conduct
Audit and risk committee comprises four independent non-executive directors	**Independent acquisition committee** comprises seven independent non-executive directors	**Nominations committee** comprises three independent non-executive directors and two non-executive directors	**Remuneration committee** comprises three independent non-executive directors and two non-executive directors	**Social and ethics committee** comprises two independent non-executive directors, one executive director and the Tsogo Sun group Chief Financial Officer

Chief Executive Officer is responsible for the implementation of board strategy and policy and management of the business

Assist the board in discharging its duties and monitor compliance

Executive committee is responsible for the day-to-day management of the group

Risk management committee is responsible for the identification and management of risks and opportunities

Corporate governance continued

Executive directors

Keith Randall (53)

Chief Executive Officer, executive director

BSc (Eng), GDE, MBA (University of Cape Town)

Keith was appointed to the position of Chief Executive Officer at Hospitality with effect from 1 January 2017 and is a member of the social and ethics committee. Prior to his appointment at Hospitality, Keith had been with the Tsogo Sun group for over 20 years, principally in the development of new hotels and the oversight of major hotel refurbishments in South Africa, Africa and the Middle East. More recently, he was a director of Sun1 Hotels Proprietary Limited, following the acquisition of the Formula 1 Group in South Africa from Accor and was responsible for the refurbishment and repositioning of this hotel chain.

Mara de Lima (39)

Financial Director

CA(SA)

Mara was appointed the Financial Director of Hospitality effective 30 September 2016. Mara served her articles at KPMG Inc. and joined Southern Sun Hotels Proprietary Limited as management accountant in October 2007. She was appointed the group Financial Manager of Tsogo Sun Hotels in February 2009.

Rob Nicolella (48)

Non-executive director

CA(SA), PLD

Rob joined Hosken Consolidated Investments Limited ('HCI') in 2011. Rob serves on the boards of subsidiary companies Business Systems Group Africa Proprietary Limited, Syntell 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 and subsequently Head of Private Banking for the Western Cape.

Laurelle McDonald (35)

Non-executive director

CA(SA)

Laurelle served her articles at Grant Thornton and joined Gold Reef Resorts as an assistant financial manager at Silverstar Casino in 2007. Thereafter, she was appointed as the group Financial Manager and the Company Secretary of Gold Reef Resorts. After the acquisition of Gold Reef Resorts by Tsogo Sun, Laurelle was appointed Corporate Finance and Treasury Manager of Tsogo Sun and currently serves as a member of Tsogo Sun's executive committee.

Non-executive directors

John Copelyn (66)

Chairman, non-executive director

BA (Hons), BProc

John was appointed as Chairman 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 Chairman of Tsogo Sun and e.tv. John is a member of the nominations and remuneration committees.

Jacques Booysen (57)

Non-executive director

CA(SA)

Jacques is a Chartered Accountant (SA) and was a partner at PricewaterhouseCoopers Inc. prior to working at the Gauteng Gambling Board for 12 years, where he held the position of Chief Executive Officer. He joined Tsogo Sun in 2007 and served as the Financial Director of Tsogo Sun gaming and subsequently the Managing Director of Tsogo Sun gaming prior to his appointment as the Chief Executive Officer of Tsogo Sun.

Zibusiso Kganyago (50)

Non-executive director

BCom (University of Natal)

Zibusiso is Director of Developments at Tsogo Sun Gaming and has been with Tsogo Sun for 19 years. Zibusiso's property experience spans a 20-year period, having concluded Cosatu's first property transaction, while she was their accountant, whereafter she moved to Intersite Property Management Service, then Southern Sun. Zibusiso joined Southern Sun as Development Manager and moved across to Tsogo Sun in the same year. Zibusiso was later promoted to the position of Director of Developments.

Independent non-executive directors

Linda de Beer (47)

Lead independent non-executive director

CA(SA), Chartered Director (SA), Masters (Taxation)

Linda is an independent director, reporting and governance adviser. She is also a director on the boards of Royal Bafokeng Platinum Limited, Sasfin Bank Limited, Sasfin Holdings Limited and the Chairman of Aspen Finance Proprietary Limited. Linda, inter alia, serves on the King Committee on Corporate Governance (member of the King IV Task Team) and chairs the JSE's Financial Reporting Investigation Panel. Linda was appointed a director of Hospitality on 17 August 2011. She is the Chairman of the audit and risk committee and a member of the remuneration and nominations committees.

Don Bowden (58)

Independent non-executive director

BCom (Economics), BAcc (Wits), CA(SA)

Don was appointed to the board in August 2012. He is a non-executive director of Foord Unit Trusts (RF) and The Fruitways Group and a trustee of Molteno Brothers Trust, a charitable trust. Don was a financial services partner at Deloitte & Touche before joining BoE in 1998. At BoE he managed the investor relations, communications, marketing and human resources portfolios for the banking group. Following the merger of BoE with Nedcor (later to be renamed The Nedbank Group) in 2002, Don assumed responsibility for communications and human resources on the Nedcor integration and restructuring team, before starting Tier 1 Investor Relations in 2003. Don served as Chairman of the board from 30 June 2013 to 30 November 2016. He chairs the remuneration committee and is a member of the audit and risk committee.

Gerald Nelson (61)

Independent non-executive director

BSc Building (Wits)

Gerald stepped down as the Chief Executive Officer of Hospitality on 30 June 2013, but remains on the board as a non-executive director. He was first appointed to the board prior to the listing of the Company in 2006. He conceptualised and was actively involved with the set-up of the Company. Prior to 2006, Gerald was the Managing Director of Sycom Property Fund Managers Limited and a past Chairman of the Association of Property Unit Trusts. He has 38 years' experience in activities related to property with specific expertise in development, asset management as well as listed and directly held investment property vehicles, with a specific focus on the hotel and leisure industry for the past 11 years. Gerald is a member of the nominations, and social and ethics committees. He is currently involved in various local and offshore property development and investment activities.

Zuko Kubukeli (43)

Independent non-executive director

PhD (Human Biology) (UCT), BSc (Medicine) (Hons) (UCT), BSc (Biochemistry and Microbiology) (UCT)

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. Zuko chairs the social and ethics committee and serves on the nominations committee.

Willy Ross (71)

Independent non-executive director

CTA, CA(SA)

Willy was appointed as an independent non-executive director in April 2007. Willy has more than 30 years' merchant and investment banking experience and was, until his retirement, responsible for the project and structured finance and private equity departments of Nedcor Investment Bank Limited, as well as its risk and compliance functions. Post his retirement, Willy has for the past 12 years served as Chairman or director on the boards of a number of listed and unlisted companies, including Kagiso Media Limited, Vunani Limited and Capital Property Fund (Chairman).

Syd Halliday (70)

Independent non-executive director

CAIB (SA), ACIS

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 Chairman of Nedbank Corporate Property Finance's main property lending committee up to December 2012. He joined the board of Hospitality on 30 June 2013 and is a member of the audit and risk committee. He also serves on the board of Dipula Income Fund Limited and consults to Rand Merchant Bank as a member of their real estate credit committee and Sasfin Bank in their real estate private equity fund.

Zola Malinga (39)

Independent non-executive director

CA(SA), BCom (Accounting)

Zola qualified as a Chartered Accountant (SA) in 2003, having completed a postgraduate diploma in accounting at the University of Natal (Durban) and a bachelor of commerce at the University of Cape Town. She is an executive director of Jade Capital Partners. Zola was previously a director of Standard Bank Group Limited's real estate finance division, heading up its new business team and an investment banker, having held roles in Standard Bank's BEE finance division and in corporate finance at Investec Bank Limited. She was appointed to the board of Hospitality as an independent non-executive director on 8 July 2013 and serves as a member of the audit and risk and remuneration committees.

Corporate governance continued

The board and board committees

Changes to the board

During the nine months ended 31 March 2017

In line with the change of control clause contained in the previous CEO's contract of employment and subsequent to Tsogo Sun's acquisition of a majority interest in the Fund, Vincent Joyner's termination as CEO and a member of the board of Hospitality became effective from 31 December 2016. Keith Randall was appointed as CEO from 1 January 2017. The board also appointed Mara de Lima as Financial Director, effective 30 September 2016.

John Copelyn, Zibusiso Kganyago, Laurelle McDonald, Rob Nicolella and Marcel von Aulock were appointed as non-executive directors with effect from 1 September 2016.

John Copelyn succeeded Don Bowden as Chairman of the board on 30 November 2016. John is a non-independent non-executive director. In order to assist the board to manage any actual or perceived conflicts of interest that may arise, Linda de Beer was appointed as lead independent director on the same day.

Subsequent to the financial year end

The resignation of Marcel von Aulock and the appointment of Jacques Booysen as non-executive directors were effective from 1 June 2017 and 8 June 2017 respectively.

Responsibility and discharge of duties

The board meets at least four times a year.

The board is responsible for the governance of the group and ensures that the necessary structures and processes are in place to create a strong governance framework. The board recognises that strategy, the management of risks and opportunities, performance and sustainability are all linked.

The board operates within its defined written terms of reference and the Company's MOI, copies which can be found on the Company's website at http://www.hpf.co.za.

Board committees have been constituted to assist the board in discharging its duties. Each board committee operates within specific written terms of reference approved by the board and adopted by the committee. Committee chairmen report back quarterly to the board on the proceedings of the committees.

The board restructured its committees during February 2017. The membership of the audit and risk committee was increased from three to four members. Matters within the mandate of the investment committee are dealt with by the board as a whole and the existence of the investment committee was terminated.

An independent acquisition committee was established on 9 February 2017 to consider related party transactions. All seven of the independent non-executive directors are members of the committee.

Although the Institute of Directors had been contracted to perform an independent board evaluation during 2017, it was decided, due to the changes in board and committee composition, to only proceed with the evaluation during the 2018 financial year.

Appointments to the board

The procedure for appointments to the board is set out in the terms of reference of the nominations committee. Appointments to the board are dealt with in a formal and transparent manner by the board as a whole. Appointments are made on recommendations by the nominations committee, following an assessment of any prospective director's qualifications, abilities and experience so as to make a meaningful contribution to the board and its committees.

One-third of the directors retire annually at the annual general meeting. In addition, any director that has reached the age of 70 years retires annually. If they are eligible, these directors may offer themselves for re-election.

Riskco (internal)

Riskco assists the board to ensure that management implements appropriate risk management processes and controls. Management is accountable to the board for integrated risk management into the daily activities of Hospitality. Refer to the material risk and opportunities section on page 18 for further detail on our risk management approach.

Diversification

A board diversity policy has been adopted with the objective of creating a diversified board in terms of gender, age, ethnicity and cultural background. The board recognises the need and embraces the benefits of having a diverse board. Diversity at board level is seen as an essential element in maintaining a competitive advantage. Annual objectives will be set for implementation. The current board composition is set out on page 43.

Division of responsibilities

The Chief Executive Officer and Chairman positions are held by different individuals. The Chairman provides leadership to the board and is responsible for the effective functioning of the board and its committees. The Chief Executive Officer executes and implements board strategy and policies and is responsible for the management of the business.

The board charter and the MOI demonstrate that there is a clear balance of power and authority at board level and that no one director has unfettered powers. Decisions, if not unanimous, are taken by a simple majority, with one vote per director. The Chairman does not have a deciding vote.

Company Secretary

The Company Secretary is responsible for the statutory administration of the group and ensures that all regulations and governance codes are observed. 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.

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

	Summary of roles and responsibilities	Members	Number of meetings attended (1 July 2016 to 31 March 2017)
Board	**Composition** – 14 members. – Majority non-executive directors, of which the majority is independent. **Role and responsibilities of the Chairman** – Provides leadership to the board and the Company. – Responsible for the effective functioning of the board and its committees. – Acts as a direct liaison between the board and the management of the Company, through the CEO. – Directors and management have unrestricted access to the Chairman. **Role and responsibilities of the board** – Accountable to shareholders and acts in the best interest of the Company. – Exercises control of the group and provides leadership and strategic direction. – Delegates and monitors the implementation of strategies by management. – Sets the ethical standard of conduct for the group. – Considers risks and opportunities in line with the Company's agreed risk parameters. – Sets the Company's investment policies. – Monitors the Company's performance. **Key focus areas addressed during 2017 financial year** – Diversified the financing structure. – Spread the debt maturity profile. – Considered the current size of the board, its composition and the requirement for specific skills on its respective committees. – Monitored the integration of 10 Tsogo Sun properties into the Hospitality portfolio. **Key focus areas for 2018** – Monitor the level of hedging and debt maturity profile of the Fund. – Consider the Fund's distributions to meet the needs of both the business and shareholder expectations. – Monitor the integration of 29 Tsogo Sun properties and any other potential Tsogo Sun hotel assets into the Hospitality portfolio. – Oversee shareholder and stakeholder relationships.	**Non-executive** J Copelyn (Chairman)* J Booysen■ ZN Kganyago* L McDonald* R Nicolella* MN von Aulock*◊ **Independent non-executive** L de Beer (LID) DG Bowden SA Halliday ZN Kubukeli ZN Malinga GA Nelson WC Ross **Executive** VM Joyner (CEO)# KG Randall (CEO)# M de Lima (FD)#	4 meetings held 3 of 3 0 of 0 3 of 3 3 of 3 3 of 3 3 of 3 4 of 4 4 of 4 4 of 4 4 of 4 4 of 4 4 of 4 4 of 4 2 of 2 3 of 3 3 of 3

* *Appointed 1 September 2016.*
■ *Appointed 8 June 2018.*
◊ *Resigned 1 June 2017.*
\# *M de Lima was appointed on 30 September 2016, VM Joyner resigned on 31 December 2016 and was succeeded by KG Randall as CEO on 1 January 2017.*

Corporate governance continued

	Summary of roles and responsibilities	Members	Number of meetings attended (1 July 2016 to 31 March 2017)
Audit and risk committee ('ARC')	**Composition** – Four independent non-executive directors. – The Chairman of the board, CEO, FD, Tsogo Sun's group CFO, internal and external auditors attend committee meetings by invitation. – The internal and external auditors have unrestricted access to the committee and its Chairman. – The external auditors meet with the members of the committee at least annually, without members of the executive committee in attendance. **Role and responsibilities of the committee** – Reviews the group's financial statements and oversees integrated reporting. – Reviews insurance, treasury and taxation matters. – Carries out its statutory duties as set out in section 90 of the Companies Act, 2008. – Ensures that appropriate financial reporting procedures have been established and are operating. – Satisfies itself of the expertise and experience of the Financial Director and the Fund's finance function. – Considers the effectiveness of the internal financial controls as well as the external and internal audit functions. – Ensures that an effective risk management process is in place to identify and monitor the management of key risks and opportunities. **Key focus areas addressed during 2017 financial year** – Monitor and receive feedback from management on the implementation of a new accounting system and processes. – Monitor the transition between external auditor firms KPMG and PwC. – Monitor the implementation of measures in terms of the JSE's report on pro-active monitoring. – Agreed the scope and assessed the outcome of internal control testing performed by KPMG. **Key focus areas for 2018** – Continue to monitor the maturing of the risk identification and risk management processes. – Assess and review an internal audit plan for the 2018 financial year. – Consider the King IV gap analysis and the implementation of any required measures to meet the principles of King IV. – Consider a treasury policy for recommendation to the board. *Refer to the report of the ARC on page 3 of the consolidated financial statements for the nine months ended 31 March 2017.*	**Independent non-executive** L de Beer (Chairman) DG Bowden+ SA Halliday ZN Malinga	4 meetings held 4 of 4 4 of 4 4 of 4 4 of 4
Independent acquisition committee ('IAC')	**Composition** – Seven independent non-executive directors. – Four independent non-executive directors form a quorum. **Role and responsibilities of the committee** – Considers the viability and fairness of related-party transactions. – Appoints the relevant independent consultants and advisors to provide the committee with the necessary guidance and comfort on related-party transactions. – Approval of regulatory documentation for distribution to shareholders. **Key focus area addressed during 2017 financial year** – Considered and approved the acquisition by the Company of 29 Tsogo Sun properties and recommended the acquisition to shareholders for approval.	**Independent non-executive** L de Beer (Chairman) DG Bowden SA Halliday ZN Kubukeli ZN Malinga GA Nelson WC Ross	2 meetings held 2 of 2 2 of 2 2 of 2 2 of 2 2 of 2 2 of 2 2 of 2

+ *Appointed as a member of the committee on 6 February 2017.*

	Summary of roles and responsibilities	Members	Number of meetings attended (1 July 2016 to 31 March 2017)
Nominations committee ('Nomco')	**Composition** – The composition of the committee was amended by the board on 6 February 2017. – The newly comprised committee did not meet prior to year end. – The Chairman of the board is the Chairman of the committee. **Role and responsibilities of the committee** – Ensures that the board has the appropriate composition and balance of skills for it to execute its duties effectively. – Ensures that the appointment of directors is transparent and follows a formal process. – Identifies and evaluates potential candidates for appointment to the board. – Ensures that induction and ongoing training and development of directors take place. – Succession planning. **Key focus areas addressed during 2017 financial year** – The appointment of appropriate and suitably qualified executive directors to the Company. **Key focus areas for 2018** – Enhancement of annual committee and board assessments at an individual and collective level. – To set with the guidance of the social and ethics committee, annual objectives for the implementation of the board diversification policy, for recommendation to the board.	**Independent non-executive** D Bowden (prior Chairman)[△] L de Beer (LID) ZN Kubukeli GA Nelson **Non-executive** J Copelyn (Chairman)[+] J Booysen[■] MN von Aulock[+ ◊]	1 meeting held 1 of 1 1 of 1 1 of 1 1 of 1 0 of 0 0 of 0 0 of 0
Remuneration committee ('Remco')	**Composition** – The composition of the committee was amended by the board on 6 February 2017. – The committee comprises a majority of independent non-executive directors. **Role and responsibilities of the committee** – Oversees the setting of remuneration policies for the group. – Ensures that directors and executives are remunerated fairly and responsibly. – Evaluates the performance of executive directors and sets annual key performance indicators. – Recommends the remuneration of non-executive directors to shareholders for approval. **Key focus areas addressed during 2017 financial year** – Considered the effectiveness of the current long-term incentive ('LTI') scheme. – Aligned the committee's terms of reference and the group's remuneration policy with new employment policies and King IV. **Key focus areas for 2018** – Consider an appropriate LTI scheme to replace the existing current LTI scheme. – Align remuneration reporting with King IV principles. *Further details of the group's remuneration policy can be found on page 50.*	**Independent non-executive** DG Bowden (Chairman) L de Beer Z Malinga **Non-executive** J Copelyn[+] J Booysen[■] MN von Aulock[◊+]	1 meeting held 1 of 1 1 of 1 1 of 1 0 of 1 0 of 0 1 of 1

[■] *Appointed 8 June 2018.*
[+] *Appointed 1 September 2016.*
[◊] *Resigned 1 June 2017.*
[△] *Stepped down as a member 6 February 2017.*

Corporate governance continued

	Summary of roles and responsibilities	Members	Number of meetings attended (1 July 2016 to 31 March 2017)
Social and ethics committee ('S&E')	**Composition** – The composition of the committee was amended by the board on 6 February 2017. – The committee comprises two non-executive directors, an executive director and the CFO of Tsogo Sun. **Role and responsibilities of the committee** To assist the board with: – Employment equity and transformation. – Monitoring of stakeholder relationships. – Ethics management and anti-corruption. – Carrying out of its statutory duties in compliance with the Companies Act, 2008. **Key focus areas addressed during 2017 financial year** – Monitored human capital development. – Monitored changes to the BBBEE and sector codes and implemented strategic plans to avoid any negative impact on the Company's scorecard. – Ensured proper whistle-blowing channels are in place. **Key focus areas for 2018** – To guide the nominations committee on annual objectives for the implementation of the board diversification policy. *The statutory report of the committee can be found on page 48.*	**Independent non-executive** ZN Kubukeli (Chairman) GA Nelson KG Randall **Other** R Huddy+ (CFO, Tsogo Sun)	3 meetings held 3 of 3 3 of 3 1 of 1 1 of 1

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 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.

BBBEE rating

Hospitality achieved a level 1 (2016: level 4) rating, mainly due to the strong BBBEE credentials of its majority shareholder.

Change of year end

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

Share capital

The increase in the Company's authorised share capital from 600 000 000 ordinary shares to 2 000 000 000 ordinary shares was approved by the requisite majority of shareholders, in terms of section 60 of the Companies Act. Clause 9 of the MOI was amended to incorporate the increase in authorised share capital.

Internal controls

Hospitality has established and maintains financial and operational systems of internal control to support the reliability of financial statements, ensure that transactions are concluded in accordance with management's authority, are accurately recorded and that the group's assets are appropriately protected against material losses, the unauthorised disposals or acquisitions.

These systems include policies and procedures regarding the authorisation and the segregation of duties.

In the current financial year, internal control testing was performed by KPMG, to test internal financial controls, which had been enhanced and adopted during the 2016 financial year.

The board takes responsibility for the Company's internal controls. At this point in time no written independent assessment of internal controls has been obtained and an internal audit function will be developed in 2018.

Delegation of authority

The formal delegation of authority is set out in the terms of reference of each committee of the board. Authority limits to conduct the daily operations of the Company have been approved by the board and is reviewed annually. Management acts within these authorities.

Code of ethics

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 which include the conflicts of interest, code of conduct and share dealing policies. The implementation of anti-corruption and fraud initiatives is covered in our social and ethics report on page 48.

Assurance of the integrated annual report

The board has reviewed and approved the integrated annual report after satisfying itself of the integrity of the report insofar as it highlights matters material to the Fund and provides a balanced view of the Fund's strategy to maintain and create value in a sustainable manner over the long term.

The process of integrated reporting continues to evolve and at this early stage the group has not sought external verification of the content or part thereof apart from the annual financial statements, which the external auditor, PwC Inc., has provided assurance on, as confirmed in the independent auditor's report.

Compliance

Hospitality's King III compliance report, which addresses every one of the 75 King principles in the form of a register, was updated during the year and can be found on the Company's website http://www.hpf.co.za.

King IV was released to the public in November 2016. King IV is outcome-based, with a reduction from 75 to 16 core principles. Its corporate governance recommendations are more focused and practical with increased emphasis on outputs and outcomes of governance structures. Hospitality is committed to applying King IV in the 2018 financial year. We are in the process of compiling a gap analysis and will implement the necessary internal processes and reporting systems to meet our 2018 King IV application and reporting commitments.

The board provides an annual declaration, confirming that the company has complied with the JSE Listings Requirements and disclosure requirements as imposed by the JSE during the 2017 financial period as well as the REIT requirements for continued listing on the JSE.

Rosa van Onselen
Company Secretary

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 46 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.

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 that 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 and 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 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 which 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.
- Donation of equipment (valued at R87 000) to the Tsogo Sun's Entrepreneurs Programme for guest houses in Cape Town.
- The Hospitality Fund Bursary Scheme, awarded three bursaries for the completion of a three-year National Diploma in Hospitality management or Food and Beverage management with the University of Johannesburg ('UJ') at a total cost of R140 000. The beneficiaries of these bursaries have a one-year service obligation to Hospitality for each year of study. Third-year bursary students complete their practical training with Hospitality.
- Bursaries were awarded to three students to study Hotel Management at Cape Town University, Stenden Hotel School and UJ Business School at a total cost of R100 000. A bursary was also awarded to an Executive Sous Chef completing his second year at HTA Culinary School as part of a block release programme at a cost of R29 000.
- Nine emerging leaders from various properties within the portfolio completed a 15-month management development programme through the International Hotel School and the American Hotel and Lodging Educational institute at a cost of R180 000, which was expensed in the 2016 financial year.
- A finance bursary was awarded through the Institute of Accredited Bookkeepers at a cost of R60 000, for the completion a Junior Bookkeeping learnership.

The group has reduced its impact 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 of solar panels, LED globes and occupancy sensors has reduced the cost and usage of energy. The installation of reverse osmosis plants to produce potable water is being investigated at selected Cape Town hotels. Usage of energy and natural resources is monitored and managed by the tenants and/or 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 21 of this report.

Hospitality promotes a culture that supports enterprise and innovation, with appropriate short and long-term rewards that are fair and achievable. An employee wellness programme is available to staff, free of any cost, for bereavement counselling, financial guidance, legal advice and mentoring, amongst other matters.

The committee receives quarterly feedback on the status of Hospitality's BBBEE strategy. The Company improved its BBBEE rating from level 4 to level 1, due to the strong BBBEE credentials of its majority shareholder. The committee reviews compliance at hotel level with the Broad-Based Black Economic Empowerment Act, No 53 of 2003 and the resultant achievement of suitable BBBEE ratings, to maintain existing and secure new business.

Hospitality focuses on developing its future leaders and providing basic hospitality skills. Hospitality now has access to the extended training initiatives and offerings of its majority shareholder Tsogo Sun. 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 International Hotel School at a cost of R20 000.

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.

Mount Grace Country House and Spa – Magaliesburg

Remuneration

Remuneration philosophy and policy

The key goals of Hospitality's remuneration philosophy and policy 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; and
- promote a culture that supports initiative and innovation, with appropriate short and long-term rewards that are fair and achievable.

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

Fair, responsible and transparent remuneration

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

The fixed and variable mix of remuneration structure 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 key performance objectives. Executives have a larger portion of their potential total remuneration subject to the achievement of financial targets. Financial targets are measured at EBITDAR and adjusted earnings pre-LTI on a 50:50 basis. The potential STI is based on 20% to 40% key performance objectives, according to the employee grading of the participant. 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/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 Chief Executive Officer ('CEO'), the Financial Director ('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.

The Trust units vest in equal parts over a period of three years, commencing on 30 September 2016. Both executive directors who were beneficiaries of the Trust had left the employment of the Company prior to the vesting of the units, and their allocations reverted to the Trust. At the time of vesting, beneficiaries have the option to take up their portion thereof at cost, plus outstanding loan interest, less distribution payments received toward loan payments. Due to the eroded value of the units, none of the beneficiaries have elected to take up their options. Following the capital restructure, the HPF Employee Incentive Trust owns 562 774 ordinary shares of no par value, of which 293 204 are issued to management and employees. Neither of the current two executives are beneficiaries of the Trust.

It is the Company's intention to restructure its current LTI scheme. Until such time that the Company's LTI scheme has been restructured, executives and senior management, according to their employee grade, participate in the Tsogo Sun share appreciation bonus plan. Appreciation units are allocated annually to executives and selected managers at market price. They are available to be settled on the third anniversaries of their allocation, but must be exercised by the sixth anniversary, or they will lapse. On settlement, the value accruing to participants will be the full appreciation of Tsogo Sun's share price over the allocation price plus dividends declared and paid post-grant date, which value will be settled in cash.

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

Grant date	Appreciation units granted	Strike price	Vesting date	Expiry date
1 April 2017	**321 430**	**28.00**	**31 March 2020**	**31 March 2023**

Executive directors' service contracts

The CEO and FD are both full-time salaried employees of Hospitality. Their employment contracts are subject to three months' notice periods and contain no restraint of trade clauses.

Subsequent to the Tsogo Sun transaction becoming 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 a member of the board of Hospitality was terminated by the board with effect from 31 December 2016.

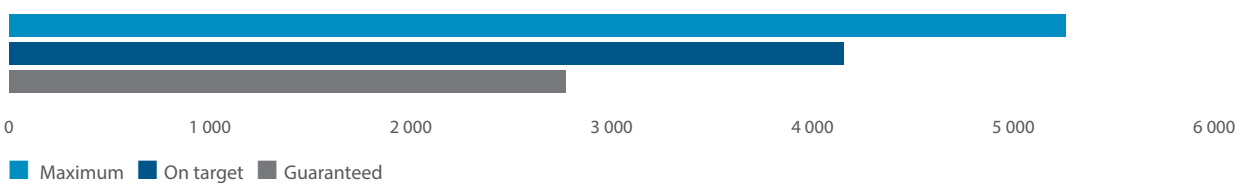
Riaan Erasmus held the role of acting CFO from August 2015 to 30 September 2016, when Mara de Lima was appointed as permanent Financial Director.

Implementation report

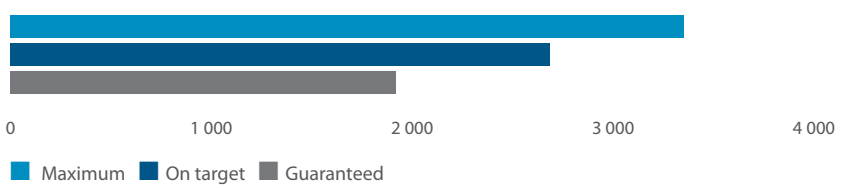
Executive directors' composition of total remuneration package

The charts below provide an indication of the remuneration outcomes for the executive directors showing potential total remuneration for maximum, on target and minimum performance levels.

Chief executive officer – value of package in Rand ('000)



Financial director – value of package in Rand ('000)



The scenario charts assume:
- *Guaranteed package – fixed pay and benefits for the year ended 31 March 2017*
- *Short-term incentives – based on scheme rules with maximum bonus paid at maximum performance and nil bonus below threshold performance*
- *Long-term incentives – excluded from the charts as issued at market price and participants rewarded through variable share price increases*

Remuneration continued

Executive directors' remuneration

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

** Prescribed officer*
[1] 1 January 2017 to 31 March 2017.
[2] 1 October 2016 to 31 March 2017.
[3] 1 July 2016 to 31 December 2016.
[4] 1 July 2016 to 31 December 2016.
[5] The executive directors have R3.8 million invested appreciation units at 31 March 2017

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

** Prescribed officer*

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

Non-executive directors' fees

Non-executive directors are not subject to 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 fee in the form of an annual retainer; or
- a per meeting fee for actual attendance in the case of the nomination and remuneration committee members.

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

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

The increase in non-executive directors' fees for FY2017 was approved by shareholders at the 2016 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 of 6.5%, with the exception of Mrs de Beer's fee as Chairman of the audit and risk committee, which was increased by 8%, due to her additional responsibilities as the lead independent director.

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

[1] *Fees are paid to the respective group companies and not to the individuals*
[2] *1 September 2016 to 31 March 2017*

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

Shareholders are requested at the Company's 2017 AGM to grant the board the necessary authority to increase directors' fees for the period for 1 April 2018 to 31 March 2019 up to a maximum of 8%.

Non-executive directors' *ad hoc* fee

In terms of the Company's MOI and the Companies Act, an hourly ad hoc fee may be payable to any non-executive director, 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. Such ad hoc fee is to be calculated on actual hours spent on any special assignment or additional work, less 20 hours per director, per annum, which is deemed to be a reasonable time spent on unanticipated matters arising. Principle 153 of King III supports the setting of an ad hoc fee for non-executive directors.

Shareholders approved an hourly *ad hoc* fee of R1 750 at the AGM held on 23 November 2015.

Protea Hotel Victoria Junction – Cape Town

Glossary

AGM	Annual General Meeting
ARR	Average room rate, sometimes referred to as average daily rate
BBBEE	Broad-based black economic empowerment
Companies Act	The Companies Act, No 71 of 2008, as amended
CEO	Chief Executive Officer
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
Disposal properties	Seven properties disposed of in the prior year and the sale of Inn on the Square (effective 20 November 2016)
DMTN	Domestic medium-term note programme
EBITDAR	Earnings before interest, tax, depreciation and amortisation
FD	Financial Director
FF&E	Furniture, fittings and equipment
First Tsogo Sun transaction or first transaction	The acquisition by Hospitality of the entire issued share capital of Fezisource Proprietary Limited, a letting operation owning 10 hotels, from SSH
F&B	Food and beverage
F&V	Fixed and variable
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
IFRS	International Financial Reporting Standards
IIRC <IR> Framework	International Integrated Reporting Council's <IR> Framework
<IR>	Integrated reporting
JSE	JSE Limited
King III	The King Code of Governance Principles for South Africa 2009
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
PwC Inc.	PricewaterhouseCoopers Inc. was appointed as the external auditor of Hospitality on 22 November 2016
Revpar	Revenue per available room
SENS	Stock Exchange News Service of the JSE Limited
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
STR	STR Global South African Hotel Review
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
Tsogo group	Collectively, Tsogo and its subsidiaries
Tsogo Sun	Tsogo Sun Holdings Limited

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)

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)
2 Eglin Road
Sunninghill, Johannesburg, 2157
(Private Bag X36, Sunninghill, 2157)

Sponsor and corporate adviser
Java Capital
6A Sandown Valley Crescent
Sandton, Johannesburg, 2196
(PO Box 2087, Parklands, 2121)

Transfer secretaries
Computershare Investor Services Proprietary Limited
(Registration number: 2004/003647/07)
Rosebank Towers
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