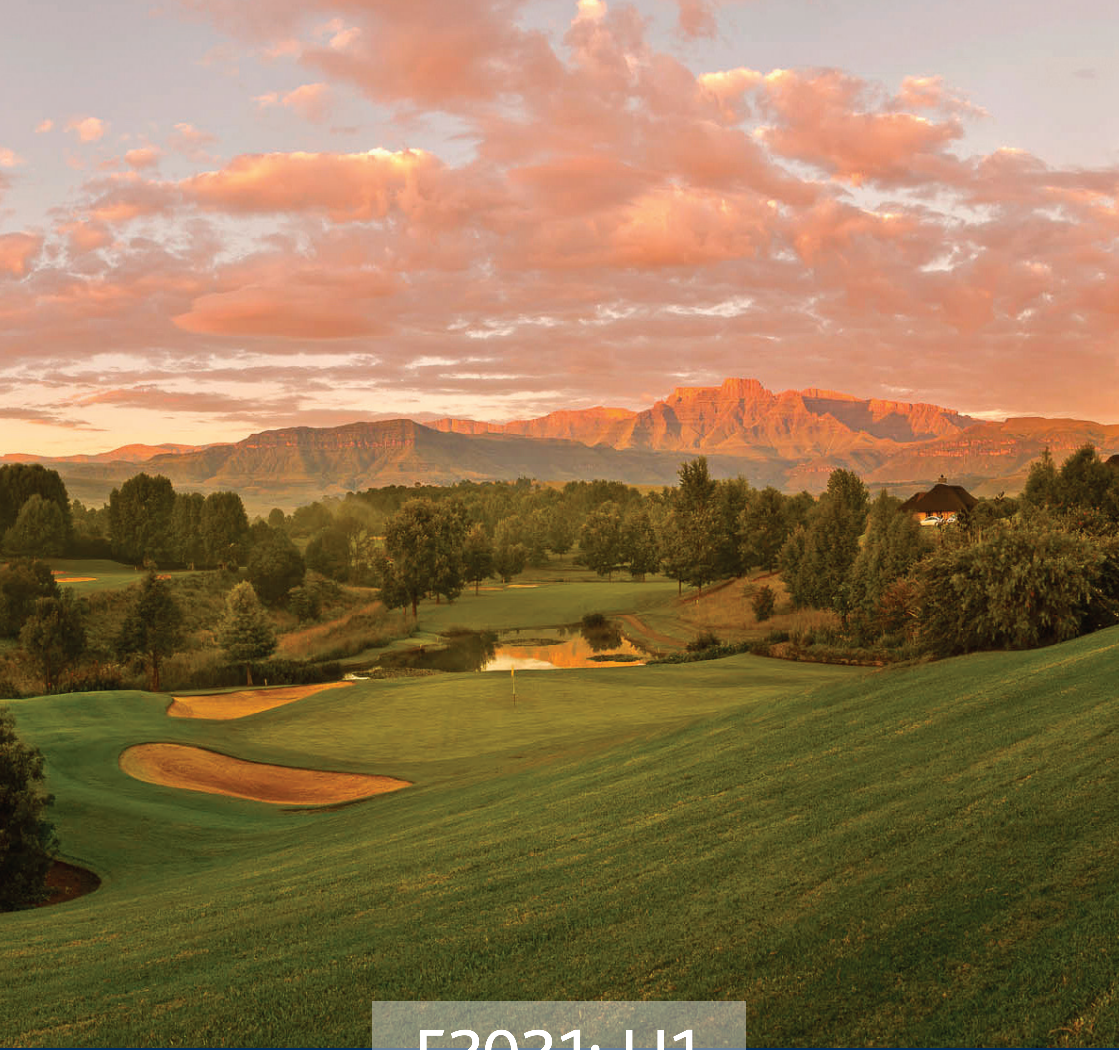

F2021: H1

Hospitality
PROPERTY FUND

Unaudited condensed consolidated financial results
for the six months ended 30 September 2020

Commentary

Hospitality Property Fund Limited's ("The Fund" or "Hospitality" or "Group") distributable earnings decreased by 147% to a loss of R102 million (2019: profit of R215 million) for the period due to the impact of the Covid-19 virus, which resulted in the closure of hotels during lockdown and subsequent restrictions imposed on the hospitality and travel sectors. As a result of the distributable loss of R102 million, the board did not declare a dividend for the interim period (2019: 35.40 cents).

Two of the Fund's properties were prematurely vacated during the period, being the Protea Hotel Hazyview ("Hazyview") and the Mount Grace Country House & Spa ("Mount Grace"). The Mount Grace successfully reopened its doors on 9 September 2020 under a management agreement with Tsogo Sun Hotels Limited ("Tsogo"), and Hazyview, together with the iconic Edward hotel in Durban, will reopen their doors under Tsogo management before December 2020.

Total hotel occupancies decreased on the prior year by 33.3 percentage points ("pp") (or 58.4%) to 23.7% (based on those hotels that were open and trading), primarily due to the lockdown measures implemented by Government in March 2020, resulting in almost all the properties being temporarily closed during this reporting period. The average room rate ("ARR") decreased by 35% on the prior year to R688, resulting in a 73% decline in revenue per available room ("RevPar") on the prior year.

Rental income for the six months ended 30 September 2020 was R82 million (2019: R335 million), which is 75% down on the prior year. Hotel revenue of R3 million relates to the revenue generated for the 21 days that Mount Grace operated during the month of September 2020 under a management agreement.

The Fund's year-on-year expenses increased by R20 million or 66% predominantly due to the property-related costs of R26 million and a bad debt provision of R6 million. These property-related costs are normally carried by the hotels, before rental income is received by the Fund, but due to the supervening impossibility of performance as a result of the restrictions imposed by the Government, the hotels did not have the ability to pay these expenses. These expenses include security and administered costs, which remain the responsibility of the landlord. Excluding these extraordinary property-related costs and bad debt provision, like-for-like Fund expenses decreased to R18 million (2019: R30 million), albeit that staff and non-executive directors have been on reduced salaries and fees of between 33% and 40% for the period and no short-term incentives were provided for.

Net finance costs of R98 million (2019: R92 million) are higher than the prior year due to the increased borrowings, partially offset by the reduction in interest rates.

Income tax of R32 million was paid on 30 September 2020, due to the distributions withheld at year end, resulting in some of the distributable profit not being deductible in terms of section 25BB of the Income Tax Act.

The following table reflects the operating financial results for the six months ended 30 September 2020 compared to the prior period ended 30 September 2019:

SUMMARY OF OPERATING RESULTS AS AT SEPTEMBER 2020

	Actual 30 September 2020 R'000	Actual 30 September 2019 R'000	Variance on 30 September 2019 R'000	Variance on 30 September 2019 %
Contractual rental income	**82 473**	335 352	(252 879)	(75)
Hotel revenues	**3 089**	–	3 089	100
Sundry income	**310**	1 689	(1 379)	(82)
Fund expenses	**(50 125)**	(30 131)	(19 994)	(66)
Hotel operating expenses	**(6 428)**	–	(6 428)	(100)
Net finance cost	**(98 446)**	(91 789)	(6 657)	(7)
Income from associates	**–**	–	–	–
Income tax expense	**(32 451)**	–	(32 451)	(100)
Distributable (loss)/earnings	**(101 578)**	215 121*	(316 699)	(147)
No par value ordinary shares	**577 591**	577 591	–	–
Weighted average number of shares	**577 591**	577 591	–	–
Basic and diluted earnings per share (cents)	**(28.72)**	34.72	(63.44)	183
Basic and diluted headline earnings per share (cents)	**(28.74)**	34.68	(63.42)	183
Distribution comparative to prior years				
Interim dividend (cents)	**–**	35.40	(35.40)	(100)

** 2019 distributable earnings before the appraisal rights dividend of R10 663.*

HOTEL TRADING RESULTS

Room occupancy for the Fund's hotels (excluding Sun1) for the six months ended 30 September 2020, declined by 58.2% to 24.3%. The decrease in occupancy was driven through the significant impact of the Covid-19 pandemic in April and May 2020, which resulted in the closure of hotels during lockdown and subsequent restrictions imposed on the hospitality and travel sectors. A comparison to the STR Global South African Hotel Review (the market) is not comparable as not all of the regular participants are submitting information and some hotels are still closed.

The ARR for the portfolio decreased by 39% to R705, and the resultant RevPar decreased by 74.4% to R171.

Western Cape

In the Western Cape, seven of our properties were open and trading for some or all of the six months to September 2020, however, our two largest properties, being the Westin Cape Town and Southern Sun Waterfront were closed for the full period. The Westin in Cape Town reopened on 1 October 2020 and it is expected that the Southern Sun Waterfront will reopen mid-November 2020. Occupancies ended at 17.0%, a decrease of 69.5% on the prior year, whilst ARR decreased by 42% to R863, with the resultant RevPar decreasing 82% to R147.

Gauteng
In Gauteng, most of our properties were open, with the utilisation thereof mostly as quarantine sites and/or essential services. Notable properties that remain closed in Gauteng due to lack of demand includes the Southern Sun Rosebank, Southern Sun Pretoria, Holiday Inn Sandton and Garden Court Milpark. It is expected that these properties will open during the first quarter of 2021, unless demand determines otherwise.

Mount Grace successfully reopened on 9 September 2020, after the Marriott hotel group prematurely ended its lease with the Fund, and achieved an occupancy of 34% at an ARR of R2 047.

Occupancies for Gauteng ended at 27.3%, a decrease of 49.3% on the prior year. ARR decreased by 43% to R583, with the resultant RevPar decreasing 71% to R159.

Rest of South Africa
During the period, most of the hotels reopened, but the iconic Edward hotel and Hazyview are expected to reopen under the Tsogo brand in December 2020. Occupancies decreased by 63.6% to 24.7%, ARR decreased by 13% to R861, resulting in a RevPar decrease of 68% to R212.

Sun1 portfolio
Most Sun1 hotels operated during the period, being utilised as quarantine facilities for employees of essential service companies. The low-cost nature of these properties made them attractive to open and operate as the fixed cost to open or close them remains relatively the same. The portfolio traded at an occupancy of 19.4%, ARR increased by 6% to R538, resulting in a decrease in RevPar of 60% to R104.

PROPERTY PORTFOLIO
The Fund's portfolio includes 54 hotel and resort properties in South Africa. As at 30 September 2020, the carrying amount of the portfolio was R10.0 billion and the net asset value ("NAV") per ordinary share amounted to R12.99 (2019: R17.41).

Management have assessed the fair value of the group's investment property by reviewing the cash flow forecasts, which we believe, based on the information available, still adequately reflect the negative impact of Covid-19 on the cash flows generated by the underlying hotels for the financial years ending March 2021 and March 2022. In addition, various technical inputs have been reviewed including the 10Y bond yield which has declined from its peak in March 2020 of 10.51% to 9.45% as at 30 September 2020 and no additional fair value adjustment is required at 30 September 2020. Based on these factors, management is of the view that the fair values of investment properties are fairly stated at 30 September 2020 and no additional fair value adjustment is required at 30 September 2020.

At 30 September, 51 hotels were under lease, with the weighted average lease expiry period being 13.16 years (2019: 13.52 years). A management agreement was signed for the Mount Grace hotel, resulting in the Fund now carrying all the risk and rewards and accounting for such accordingly.

CAPITAL PROJECTS
As a result of the Covid-19 pandemic impact on the cash resources, all capital projects were suspended where possible, with only emergency capital expenditures being incurred. Total capital expenditure amounting to R12 million (2019: R90 million) was spent during the first six months to September 2020.

FUNDING
Hospitality's debt facilities with financial institutions as at 30 September 2020 amounted to R2.95 billion and the total drawn-down facilities amounted to R2.58 billion, resulting in a loan-to-value ("LTV") ratio (total interest-bearing liabilities/investment properties plus property, plant and equipment) of 26% (2019: 19%).

The interest cover ratio (earnings before interest, depreciation, tax and amortisation/net finance costs) for the 12 months rolling to September 2020, was 2.2 times (2019: 4.4 times), above the required debt covenant minimum of 2.0 times. The maximum net debt to EBITDA requirement of 3.5 times was breached, ending at 5.8 times for the rolling 12 months to 30 September 2020 (2019: 3.1 times). The Fund obtained required covenant waivers from its lenders for the measurement period ended 30 September

2020 and has received approval for the waiver of the same minimum covenant requirements for the measurement period ending 31 March 2021. As part of the approval for the covenant waiver, lenders have introduced a new minimum liquidity covenant requirement of R125 million at 31 March 2021, which includes cash and available facilities. The weighted average cost of net debt to 30 September 2020 was 8.7% (2019: 9.2%).

The Fund has no facilities that are repayable within the next 12 months and the average maturity profile of the Fund's facilities is 2.74 years. Global Credit Ratings downgraded the Fund's long and short-term credit ratings to BBB(ZA)/A3(ZA) respectively. Concurrently, the ratings assigned to the Senior Secured Notes issued by HPF have been downgraded to A+(ZA)(EL) from AA(ZA)(EL). The outlook on all the ratings has been maintained on Rating Watch Negative. The downgrade to HPF reflects the extremely uncertain operating environment in which it operates, with its income drastically reduced due to the Government efforts to curtail the Covid-19 pandemic.

PROSPECTS

The impact of the Covid-19 pandemic is still having a significant impact on the tourism industry. The city hotels are reliant on corporate and government travel within the country and corporate travel is only expected to regain some momentum when employees return to their office buildings. The Western Cape is dependent on international travel, as well as international events, like the Mining Indaba, which has been cancelled for February 2021. The Fund's gearing is at a reasonable level of 26%. Hospitality is conserving its cash resources and has implemented actions to reduce costs where possible, like the reduction in staff salaries and non-executive directors' fees to 33% to 40%. All capital expenditure has been postponed and only essential maintenance will endure.

CHANGE IN DIRECTORATE

As announced on SENS on 7 October 2020, the following persons were appointed as independent non-executive directors to the board:

– Mr J Awbrey;
– Mr TF Mosololi; and
– DL Smith.

Shareholders and noteholders are referred to the joint Firm Intention Announcement released by Hospitality and Tsogo ("Firm Intention Announcement"), on 7 October 2020. Hospitality is required to constitute an independent board of directors ("Independent Board") for the purpose of considering the Scheme and General Offer, each as defined in clause 1.1 of the Firm Intention Announcement, including evaluating the terms and conditions of the Scheme, the General Offer and the proposed delisting of the company, and advising Hospitality shareholders thereon.

In accordance with Companies Regulation 108, the Independent Board is required to comprise a minimum of three independent directors. Having considered the current composition of the Hospitality board, the board has appointed Messrs J Awbrey, TF Mosololi and DL Smith as additional directors to the board, as it is entitled to do in terms of Companies Regulation 108(9). The board has determined that all of such additional directors are independent for the purpose of the Requirements and the Companies Regulations, and shall serve as the Independent Board for the purpose of the Tsogo Sun Hotels Offer. These appointments were made pursuant to the nomination policy of the company.

Hospitality welcomes Messrs J Awbrey, TF Mosololi and DL Smith to the board.

By order of the board

MN von Aulock
(Chairman)

MR de Lima
(Chief Executive Officer)

13 November 2019

Condensed consolidated statement of comprehensive income

for the six months ended 30 September 2020

	Note	Unaudited September 2020 R'000	Unaudited September 2019 R'000
Revenue	9	**85 538**	335 331
Rental income – contractual		82 473	335 352
– straight-line accrual		(24)	(21)
Hotel revenue – rooms		1 857	–
– food and beverage		749	–
– other		483	–
Operating expenses		**(56 553)**	(30 131)
Corporate		(50 125)	(30 131)
Hotel – property and equipment rentals		(100)	–
– amortisation and depreciation		(220)	–
– employee costs		(989)	–
– other operating costs		(5 119)	–
Operating profit		**28 985**	305 200
Other income		**310**	1 689
Insurance proceeds		–	897
Sundry income		310	792
Net finance cost		**(98 446)**	(91 789)
Finance income		3 571	5 987
Finance costs		(102 017)	(97 776)
(Loss)/profit before sale of fixed assets, fair value adjustments and equity accounted profit		**(69 151)**	215 100
Profit on sale of investment property		**153**	209
Fair value adjustments		**(64 426)**	(14 786)
Interest-rate swaps		(64 426)	(14 786)
Fair value adjustment on investment properties		–	–
(Loss)/profit before taxation		**(133 424)**	200 523
Equity accounted profit from associate after tax		**–**	–
(Loss)/profit for the year		**(133 424)**	200 523
Income tax expense	10	**(32 451)**	
Other comprehensive income		**–**	–
Total comprehensive (loss)/income for the year		**(165 875)**	200 523
(Loss)/profit attributable to:			
– Equity holders		**(165 875)**	200 523
Other comprehensive income attributable to:			
– Equity holders		**–**	–
Earnings and diluted earnings per share (cents)		**(28.72)**	34.72
Headline earnings and diluted headline earnings per share (cents)		**(28.74)**	34.68

	Unaudited September 2020 R'000	Unaudited September 2019 R'000
Reconciliation between total comprehensive income/(loss) for the period and headline earnings		
Total comprehensive (loss)/income for the year	**(165 875)**	200 523
Adjustments:		
Profit on sale of furniture, fittings and equipment	**(153)**	(209)
Straight-line adjustment	**24**	21
Fair value – investment properties revaluation	**–**	–
Headline earnings	**(166 004)**	200 335
Number of shares		
No par value ordinary shares	**577 591 433**	577 591 433
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
Weighted average number of shares		
No par value ordinary shares	**577 591 433**	577 591 433
– Shares in issue	**578 154 207**	578 154 207
– HPF Employee Incentive Trust shares	**(562 774)**	(562 774)
Earnings and diluted earnings per share (cents)	**(28.72)**	34.72
Headline earnings and diluted headline earnings per share (cents)	**(28.74)**	34.68

Condensed consolidated statement of financial position

as at 30 September 2020

	Note	Unaudited September 2020 R'000	Unaudited September 2019 R'000	Audited March 2020 R'000
ASSETS				
Non-current assets		**9 991 589**	12 342 218	9 979 970
Investment properties	3	**9 874 730**	12 341 175	9 978 983
Property, plant and equipment	4	**115 880**	272	8
Investment in associates		**979**	771	979
Current assets		**255 654**	173 154	363 054
Inventories	6	**932**	–	–
Trade and other receivables	5	**183 171**	146 484	72 479
Cash and cash equivalents		**71 551**	26 670	290 575
Total assets		**10 247 243**	12 515 372	10 343 024
EQUITY AND LIABILITIES				
Equity		**7 507 893**	10 066 920	7 673 768
Stated capital		**9 051 194**	9 051 194	9 051 194
Retained earnings		**180 530**	178 557	281 979
Common control reserve		**(1 106 013)**	(1 106 013)	(1 106 013)
Non-distributable reserve		**(617 818)**	1 943 182	(553 392)
Non-current liabilities		**2 690 256**	1 412 736	2 598 172
Interest-bearing liabilities	8	**2 574 098**	1 397 636	2 546 606
Derivative liability		**114 655**	14 974	50 229
Long-term incentive liabilities non-current portion		**1 503**	126	1 337
Current liabilities		**49 094**	1 035 716	71 084
Trade and other payables		**47 534**	101 137	69 697
Short-term portion of interest-bearing liabilities	8	**–**	933 470	–
Long-term incentive liabilities current portion		**1 560**	1 109	1 387
Total equity and liabilities		**10 247 243**	12 515 372	10 343 024

Condensed consolidated statement of changes in equity
for the six months ended 30 September 2020

	Stated capital R'000	Treasury share reserve R'000	Retained earnings R'000	Common control reserve R'000	Non-distributable reserve R'000	Total R'000
Balance at 1 April 2019 (audited)	9 037 060	(9 995)	343 035	(1 106 013)	1 957 969	10 222 057
Total comprehensive loss for the year	–	–	(1 988 171)	–	–	(1 988 171)
Dividend declared on 23 May 2019	–	–	(369 124)	–	–	(369 124)
Dividend paid on 2 August 2019 in terms of appraisal rights matter	–	–	(10 663)	–	–	(10 663)
Dividend declared on 20 November 2019			(204 458)			(204 458)
Reinstatement of shareholding (appraisal rights matter)	24 129	–	–	–	–	24 129
Transfer to fair value reserve – investment properties	–	–	2 461 320	–	(2 461 320)	–
Transfer to fair value reserve – interest-rate swaps	–	–	50 040	–	(50 040)	–
Balance at 31 March 2020 (audited)	**9 061 189**	**(9 995)**	**281 979**	**(1 106 013)**	**(553 392)**	**7 673 768**
Total comprehensive loss for the period	**–**	**–**	**(165 875)**	**–**		**(165 875)**
Transfer to fair value reserve – interest-rate swaps	**–**	**–**	**64 426**	**–**	**(64 426)**	**–**
Balance at 30 September 2020 (unaudited)	**9 061 189**	**(9 995)**	**180 530**	**(1 106 013)**	**(617 818)**	**7 507 893**

Condensed consolidated statement of cash flows
for the six months ended 30 September 2020

	Unaudited September 2020 R'000	Unaudited September 2019 R'000
Cash flows from operating activities		
Cash (utilised in)/generated from operations	**(112 069)**	326 567
Finance income received	**3 571**	5 987
Finance costs paid	**(102 017)**	(97 776)
Income tax paid	**(32 451)**	–
Distribution to shareholders	**–**	(379 787)
Net cash outflow from operating activities	**(242 966)**	(145 009)
Cash flows from investing activities		
Acquisition and development of investment properties	**(3 322)**	(317 282)
Proceeds from disposal of furniture, fittings and equipment	**153**	209
Net cash utilised for investing activities	**(3 169)**	(317 073)
Cash flows from financing activities		
Interest-bearing liabilities raised	**27 111**	930 000
Interest-bearing liabilities paid	**–**	(536 530)
Net cash inflow from financing activities	**27 111**	393 470
Net decrease in cash and cash equivalents	**(219 024)**	(68 612)
Cash and cash equivalents at beginning of the period	**290 575**	95 282
Cash and cash equivalents at end of period	**71 551**	26 670

Condensed consolidated segmental information
for the six months ended 30 September 2020

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

	Unaudited September 2020 R'000	Unaudited September 2019 R'000
Total leased assets		
Western Cape	**4 477 565**	5 153 563
Gauteng	**2 784 042**	3 838 445
Rest of Africa	**2 078 669**	2 506 674
Sun1	**652 282**	842 493
Head Office	**254 685**	174 197
	10 247 243	12 515 372
Rental revenue		
Western Cape	**21 913**	109 147
Gauteng	**34 143**	108 785
Rest of Africa	**15 298**	89 224
Sun1	**11 095**	28 175
	82 449	335 331
Hotel revenue		
Western Cape	**–**	–
Gauteng	**3 089**	–
Rest of Africa	**–**	–
Sun1	**–**	–
	3 089	–
Total operating profit for the period		
Western Cape	**13 819**	108 451
Gauteng	**19 040**	103 137
Rest of Africa	**5 594**	89 224
Sun1	**8 883**	28 175
Head Office income	**310**	1 689
Head Office expense	**(18 351)**	(23 787)
	29 295	306 889
Reconciliation between headline earnings and distributable earnings		
Headline earnings	**(166 004)**	200 335
Fair value – interest rate swaps	**64 426**	14 786
Appraisal rights dividend	**–**	(10 663)
Distributable earnings	**(101 578)**	204 458
Distribution per share (cents)		
– Interim	**–**	35.40

Notes to the unaudited condensed consolidated financial statements for the six months ended 30 September 2020

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the six months ended 30 September 2020 have been prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), the preparation and disclosure requirements of IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. The accounting policies are consistent with IFRS as well as those applied in the most recent audited annual financial statements as at 31 March 2020, other than those disclosed below. The unaudited condensed consolidated financial statements for the six months ended 30 September 2020 should be read in conjunction with the annual financial statements for the year ended 31 March 2020, which have been prepared in accordance with IFRS. This interim report, together with any forward looking information contained in this report, has not been audited or reviewed by the group's auditors. These financial statements have been prepared under the supervision of the financial director, R Erasmus CA(SA).

2. ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES

During the year, one of the properties leased to a third party, namely Mount Grace Country House & Spa, was vacated due to the impact of Covid-19 on the tenant. This property is now internally managed by the HPF group. The group signed a management agreement with its controlling shareholder, Tsogo Sun Hotels Limited, resulting in this property now being accounted for as owner-occupied property, with the related assets, liabilities, revenues and expenditures of the property being accounted for accordingly. This resulted in a number of accounting policies being adopted for the reporting period ended 30 September 2020, being:

– IAS 16 *Property, Plant and Equipment*
– IAS 2 *Inventories*
– IFRS 15 *Revenue*
– IAS 36 *Impairment*

2. ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES continued

2.1 Property, plant and equipment

Property that is held for use in the supply of services or held for long-term rental yields, and where companies in the group occupy a significant portion, is classified as property, plant and equipment. Hotel properties that are managed by companies within the group are classified as property, plant and equipment.

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

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

Assets' residual values and useful lives are reviewed by management and adjusted, if appropriate, at each balance sheet date and annual independent valuations of land and buildings are completed by external valuators. Land and buildings comprise mainly hotels.

(i) Assets in the course of construction

Assets in the course of construction are carried at cost less any impairment loss. Cost includes professional fees and for qualifying assets certain borrowing costs as determined below. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(ii) Depreciation

No depreciation is provided on freehold land or assets in the course of construction. In respect of all other property, plant and equipment, depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value, of each asset over its expected useful life as follows:

– Freehold properties	20 – 50 years
– Leasehold building improvements	Shorter of the lease term or 50 years
– Computer equipment and software	2 – 10 years
– Vehicles	5 years
– Operating equipment	2 – 3 years

Operating equipment that meets the definition of property, plant and equipment (which includes kitchen utensils, crockery, cutlery, linen and uniforms) is recognised as an expense based on usage. The period of usage depends on the nature of the operating equipment and varies between two and three years.

(iii) Profit or loss on disposal

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

2. ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES continued

2.1 Property, plant and equipment continued

(iv) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. The group considers a period of greater than 12 months to be substantial. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

2.2 Inventories

Inventories are valued at the lower of cost or net realisable value. Operating equipment utilised within 12 months is recognised as an expense based on usage. Provision is made for slow-moving goods and obsolete materials are written off. Cost is determined on the following basis:

- Consumable stores are valued at invoice cost on a first in, first out ("FIFO") basis; and
- Food and beverage inventories and operating equipment are valued at weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

2.3 Revenue

Income comprises revenue from rental income (already in place), contracts with customers and other income.

The group is in the business of providing hotel rooms, food and beverage, management fees, banqueting and venue hire, parking revenue and hotel sundry revenues. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods or services.

Rooms revenue is recognised over time due to the nature of accommodation being consumed by customers over a period of time. The customer simultaneously receives and consumes the benefits provided as provision of a room is made to the customer.

Food and beverage revenue is recognised at a point in time. Management fees, banqueting and venue hire, and parking revenues are recognised over time as the customer receives and consumes the economic benefits. No element of financing is deemed present as the sales are made generally by cash or negotiated credit terms of 30 days. The group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer. The group does not have significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers as the revenues mentioned above are all based on stand-alone selling prices and pre-determined settlement dates. The group considers whether there are other promises in the contract that are separable performance obligations to which a portion of the transaction price needs to be allocated (customer loyalty programmes).

2. ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES continued

2.3 Revenue continued

Customers purchasing the group's facilities may enter the manager of the properties' customer reward programmes and earn rewards that are redeemable against future purchases of the group's hotel rooms. The group allocates a portion of the consideration received to these rewards programmes based on stand-alone selling prices. The amount allocated to the reward programme is deferred and is recognised as revenue when rewards are redeemed. When estimating stand-alone selling price of the rewards, the manager considers the likelihood that the customer will redeem the points based on historical usage and forfeiture rates and any adjustments to the contract liability are allocated to revenue.

Banqueting and venue hire, parking fees and hotel sundry revenues have been included as "Other revenue" as these do not represent material revenue streams for the group.

2.4 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a pension or provident plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(ii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value in a similar manner to all long-term employee benefits.

(iii) Bonus plans – short-term incentives

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments and the performance of the respective employees. The criteria are only finalised after the group's year end. The group recognises the liability where an estimate can be made of the amount to be paid and it is contractually obliged to do so or there is a past practice that has created a constructive obligation and the directors are of the opinion that it is probable that such bonuses will be paid. This liability is included in "Provisions" in the balance sheet.

(iv) Share-based payments – equity-settled schemes

The manager of the properties under management operates equity-settled, share-based compensation plans.

The fair value of the employee services received by the company and/or its subsidiaries in exchange for the grant of the options is recognised as an expense. Any change in the reserve is recognised in profit or loss.

2. ADOPTION OF SIGNIFICANT ACCOUNTING POLICIES continued

2.4 Employee benefits continued

(v) Goods or services settled in cash

Goods or services, including employee services received in exchange for cash-settled, share-based payments, are recognised at the fair value of the liability incurred and are expensed when consumed. The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

The fair value of the long-term incentive plan liability is determined at each balance sheet date by reference to the company's share price. This is adjusted for management's best estimates of the appreciation units expected to vest.

(vi) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability to the employees for annual leave up to the balance sheet date. This liability is included in "Trade and other payables" in the balance sheet.

(vii) Long-service awards

The group recognises a liability and an expense for long-service awards where cash is paid to employees at certain milestone dates in their careers with the group. The method of accounting and frequency of valuation are similar to those used for defined benefit schemes. The actuarial valuation to determine the liability is performed annually. This liability is included in "Provisions" in the balance sheet.

2.5 Impairment of non-financial assets

At each balance sheet date the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. If the recoverable amount of a CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

	2020 R'000	2019 R'000
3. INVESTMENT PROPERTY		
Opening balance as at 1 April	**9 978 983**	12 023 914
Additions to investment properties	**11 871**	317 282
Fair value adjustment	**–**	–
Disposal of investment property	**–**	–
Straight-line accrual rental income	**(24)**	(21)
Reclassification to property, plant and equipment[1]	**(116 100)**	–
Closing balance as at 30 September	**9 874 730**	12 341 175

[1] *Mount Grace Country House & Spa was transferred from investment property and reclassified to property, plant and equipment.*

	2020 R'000	2019 R'000
4. PROPERTY, PLANT AND EQUIPMENT		
Opening balance		
Cost	**29**	494
Accumulated depreciation	**(21)**	(157)
Carrying value	**8**	337
Acquisition	**–**	–
Disposal	**(8)**	–
Depreciation	**(220)**	(65)
Reclassification from investment properties[1]	**116 100**	–
Total movement	**115 872**	(65)
Closing balance		
Cost	**116 100**	494
Accumulated depreciation	**(220)**	(222)
Carrying value	**115 880**	272

[1] *Mount Grace Country House & Spa was transferred from investment property and reclassified to property, plant and equipment.*

5. TRADE AND OTHER RECEIVABLES

Trade receivables increased from R72 million at year end to R183 million at 30 September 2020 (30 September 2019: R146 million). As a result of the impact of the Covid-19 pandemic on the Fund's portfolio, Hospitality has provided support through extended payment terms and working capital funding as provided for in the lease agreements, in order to ensure that the properties, tenants and the Fund remain sustainable over the long term. As a result, trade receivables increased by R116 million. Where debtors have been assessed as doubtful, a provision has been made accordingly (R6 million).

Notes to the unaudited condensed consolidated financial statements for the six months ended 30 September 2020

		2020 R'000	2019 R'000
6.	**INVENTORY**		
	Food and beverage	**514**	–
	Operating equipment	**83**	–
	Consumable stores	**335**	–
		932	–

7. FAIR VALUE ESTIMATION

The group fair values its investment properties, interest rate swaps together with its available-for-sale investments. There were no transfers into or out of the relevant levels of financial instruments.

Investment properties

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the South African Government bond yield 10Y at the time of valuation, to which is added premiums for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry.

Management have assessed the fair value of the group's investment property by reviewing the cash flow forecasts, which we believe, based on the information available, still adequately reflect the negative impact of Covid-19 on the cash flows generated by the underlying hotels for the financial years ending March 2021 and March 2022. In addition, various technical inputs have been reviewed including the 10Y bond yield which has declined from its peak in March 2020 of 10.51% to 9.45% as at 30 September 2020 and no additional fair value adjustment is required at 30 September 2020. Based on these factors, management is of the view that the fair values of investment properties are fairly stated at 30 September 2020 and no additional fair value adjustment is required at 30 September 2020. The fair value assessments will be revised at year end to take into account any changes in the assumptions and the impact of any economic decisions made in the period, on the estimated future cash flows. The sensitivities remain unchanged and are available in the annual financial statements, on the website, in note 4 on page 74. The fair values will be reassessed at 31 March 2021 by an external appointed valuer.

Interest rate swaps

The group has interest rate swaps which are level 2 fair value measurements.

The fair value of the derivatives is a net liability of R115 million (30 September 2019: R15 million net liability) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year.

8. NET DEBT RECONCILIATION

This note sets out an analysis of the net debt and movements in debt for the presented periods.

	Cash R'000	Borrowings R'000	Net borrowings R'000
Opening balance at 1 October 2019	26 670	2 333 470	(2 306 800)
Cash received	263 905	1 150 000	(886 095)
Cash paid	–	(933 470)	933 470
Net debt as at 31 March 2020	**290 575**	**2 550 000**	**(2 259 425)**
Cash received	**30 835**	**27 111**	**3 724**
Cash paid	**(249 859)**	**–**	**(249 859)**
Net debt as at 30 September 2020	**71 551**	**2 577 111**	**(2 505 560)**

	30 September 2020	30 September 2019	31 March 2020
Financial liabilities measured at amortised cost			
Bank borrowings	**877 111**	1 373 470	850 000
Corporate bonds (domestic medium-term note programme)	**1 700 000**	960 000	1 700 000
	2 577 111	2 333 470	2 550 000
Less: Facility raising fees	**(3 013)**	(2 364)	(3 394)
	2 574 098	2 331 106	2 546 606
Available facilities			
Bank borrowings	**1 250 000**	1 550 000	1 250 000
Corporate bonds (domestic medium-term note	**1 700 000**	960 000	1 700 000
Excess facilities	**372 889**	176 530	400 000

		30 September 2020	30 September 2019
9.	**REVENUE**		
	Rental income		
	Fixed rental income	**98 266**	258 454
	Variable rental income	**(15 793)**	76 898
		82 473	335 352

The decrease in fixed rent is as a result of rental reset periods as per the lease agreements.

The negative variable rental income is as a result of the lockdown impacting on the rental calculation, which is based on a year to date basis from each hotels' year to date EBITDAR.

	30 September 2020	30 September 2019
Revenue from contracts with customers		
Rooms revenue recognised over time	**1 857**	–
Food and beverage recognised at a point in time	**749**	–
Other revenue recognised over time	**483**	–
	3 089	–

The revenue from contracts with customers relate to the revenue generated from the various departments at the Mount Grace Country House & Spa hotel that reopened on 9 September 2020 under a management agreement. The revenue generated consists of those generated from accommodation, food and beverage, and other (Spa, conference room rentals). The group has no contract assets or liabilities.

		30 September 2020	30 September 2019
10.	**TAXATION**		
	Current taxation		
	South African normal tax – current period	**–**	–
	South African normal tax – prior period	**32 451**	–
		32 451	–

The prior year income tax relates to distributable profits at 31 March 2020 not declared and paid in terms of section 25BB of the Income Tax Act. The related taxable income amounted to R116 million.

11. RELATED PARTIES

Rental income received from Tsogo Sun for the period 1 April 2020 to 30 September 2020 amounted to R63 million (30 September 2019: R207 million). Working capital provided through the lease agreement was R51 million (2019: Rnil). Management and royalty fees paid to Tsogo Sun Hotels Limited for the period ending 30 September 2020 amounted to R0.09 million (30 September 2019: Rnil).

12. NEW ACCOUNTING STANDARDS

(a) Standards and amendments to existing standards

The following standards and amendments to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 April 2020 or later periods, which the group has not early adopted. The group is concluding on the impact of the new standards, interpretations and amendments that will be applied from the annual period beginning on or after 1 April 2020.

IFRS 3 (Amendment) *Business Combinations*

The amendments give clarity on the definition of a business:

(i) Confirmed that a business must include inputs and a process, and clarified that:
   - the process must be substantive; and
   - the inputs and process must together significantly contribute to creating outputs;

(ii) Narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and

(iii) Added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

IFRS 3 amended must be applied for financial years commencing on or after 1 January 2021. The group will apply the new standard from 1 April 2021.

(a) Standards and amendments to existing standards continued

IAS 1 (Amendment) *Presentation of Financial Statements*

The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.

IAS 1 amended must be applied for financial years commencing on or after 1 January 2020. The group will apply the new standard from 1 April 2020.

IAS 8 (Amendment) *Accounting Policies, Changes in Accounting Estimates and Errors*

The amendments clarify and align the definition of "material" and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS.

IAS 8 amended must be applied for financial years commencing on or after 1 January 2020. The group will apply the new standard from 1 April 2020.

12. NEW ACCOUNTING STANDARDS continued

(b) Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

The Revised Conceptual Framework for Financial Reporting must be applied for financial years commencing on or after 1 January 2020. The group will apply the new standard from 1 April 2020.

13. GOING CONCERN

Covid-19

The Covid-19 pandemic ("Covid-19") and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, has had a profound impact on the group. The group's portfolio comprises 54 hotels operating in the hospitality sector, which is one of the industries that has been impacted negatively as a result of Covid-19.

The measures taken by government to limit the spread of Covid-19 and the resultant inability for travellers to travel internationally and inter-provincially continues to limit the demand for hotel rooms, especially from corporates and international leisure source markets, which is impacting the group's revenue stream significantly for the 2021 financial year. Hotel trading is therefore expected to remain under pressure until the outlook on the South African economy improves.

The impact of Covid-19 is expected to have a longer-term impact on the hospitality industry and the group, and management is expecting an increased leveraged position once trading returns to break-even and pre-Covid-19 levels.

As the group's properties were required to be closed, the inability to generate revenue during the lockdown period, together with the expected slow recovery once the hotels could open and operate, the group did not meet its net debt to EBITDA covenant requirements in terms of its funding agreements for the measurement period 30 September 2020 and it is expected that the same minimum covenant requirements will also not be met for the measurement period ending 31 March 2021. The group's gearing levels remain manageable, with the loan-to-value ratio at 26% at 30 September 2020.

13. GOING CONCERN continued

In order to partially reduce the impact of Covid-19 on the group, the following steps have been implemented to preserve cash and to ensure that the group can continue to operate as a going concern:

- capital expenditure programme suspended, with only emergency capital expenditures to be considered;
- waiver from lenders on its net debt to EBITDA and interest cover covenant requirements for the measurement period 30 September 2020 and 31 March 2021;
- the capitalisation of bank funding interest to the group's revolving credit facilities;
- the decrease of operating costs, such as salaries and wages through furlough;
- supporting of tenants to ensure their sustainability in terms of the lease agreements in place.

At 30 September 2020, cash and undrawn facilities amounted to R444 million, which will provide sufficient liquidity to the group over the next 12 months. Through engagements with the group's lenders, regular updates on operations and cash flow forecasts, lenders have noted their support to the group. Lenders introduced a new minimum liquidity covenant requirement of R125 million as part of the current covenant waiver process. Management is of the view that the group will continue to operate as a going concern in a responsible and sustainable manner.

14. SUBSEQUENT EVENTS

Firm intention by Tsogo Sun Hotels Limited

As announced by the Fund on 30 September 2020 and 7 October 2020 respectively, the board of directors of Hospitality ("Hospitality Board") and the board of directors of Tsogo Sun Hotels ("Tsogo Board") are pleased to propose the terms and conditions of a single offer to be made by Tsogo Sun Hotels to acquire all of the ordinary shares with no par value in the issued share capital of Hospitality ("Hospitality Shares"), other than the Hospitality Shares already owned by Tsogo Sun Hotels, its subsidiaries (collectively "Tsogo Sun Hotels Group") and treasury shares, which single offer comprises:

- a scheme of arrangement in terms of section 114 read with section 115 of the Companies Act, No. 71 of 2008 ("Companies Act"), to be proposed by the Hospitality Board to the holders of Hospitality Shares ("Hospitality Shareholders") ("the "Scheme"); and
- if the Scheme does not become operative, a general offer to the Hospitality Shareholders, made by Tsogo Sun Hotels, as contemplated by section 117(c)(v) of the Companies Act and paragraph 1.15(c) of section 1 of the listings requirements of the JSE Limited. ("Listings Requirements") ("General Offer") (collectively, the "Tsogo Sun Hotels Offer").

Pursuant to the implementation of the Tsogo Sun Hotels Offer, and subject to obtaining the necessary shareholder approval required pursuant to the General Offer, application will be made for the delisting ("Delisting") of all Hospitality Shares from the main board of the Johannesburg Stock Exchange, being the securities exchange operated by the JSE Limited. ("JSE").

14. SUBSEQUENT EVENTS continued

The consideration in respect of the Tsogo Sun Hotels Offer will be settled by Tsogo Sun Hotels by the issue of no par value ordinary shares in the issued share capital of Tsogo Sun Hotels ("Tsogo Sun Hotels Shares") at a ratio of 1.77 Tsogo Sun Hotels Shares per Hospitality Share acquired by Tsogo Sun Hotels ("Offer Consideration").

Hospitality and Tsogo Sun Hotels have entered into an implementation agreement ("Implementation Agreement") that includes the details of the Scheme and General Offer.

The purpose of this firm intention announcement ("Firm Intention Announcement") is to advise the Hospitality Shareholders of the material terms and conditions of the Tsogo Sun Hotels Offer.

Rationale for the Scheme and General Offer

The nature of the business of Tsogo Sun Hotels and Hospitality are substantially similar and have in principle the same economic drivers. Hotels owned by Hospitality and operated by Tsogo Sun Hotels make up the vast majority of both groups' economic value. Furthermore, the Tsogo Sun Hotels Group currently owns more than 75% of the issued share capital of Hospitality.

The Tsogo Sun Hotels Group currently includes two listed companies, both exposed to the hospitality sector and with many interrelated services and offerings. Hospitality shareholders would be able to benefit from a larger and further diversified portfolio of hotels.

The successful implementation of the Tsogo Sun Hotels Offer will:

- allow for Hospitality shareholders to benefit from a significant company within the Tsogo Sun Hotels Group that has been trading since 1969, with complementary assets in addition to Hospitality's asset holding, and further simplify the Tsogo Sun Hotels Group;
- grant Hospitality shareholders an opportunity to swap their Hospitality shares into Tsogo Sun Hotels shares, thereby fully aligning the interests of Tsogo Sun Hotels and the interests of those Hospitality shareholders, and creating significantly more liquidity for those shareholders by holding Tsogo Sun Hotels shares than what they currently have given the very limited liquidity in Hospitality shares as recently traded on the JSE; and
- simplify Tsogo Sun Hotels' corporate and operating structure, as Hospitality could become a wholly owned subsidiary of Tsogo Sun Hotels if the scheme were to be implemented, thereby reducing structural complexity and costs associated with maintaining two separate listings on the JSE.

14. SUBSEQUENT EVENTS continued

Scheme consideration and General Offer Consideration

The Scheme Consideration or General Offer Consideration, as the case may, shall be 1.77 Tsogo Sun Hotels Shares per Hospitality Share. Tsogo Sun Hotels has sufficient authorised share capital to settle the Scheme Consideration and the General Offer Consideration, as the case may be.

Shareholders are advised that Hospitality has, on Wednesday, 21 October 2020 posted a combined offer circular to Hospitality shareholders ("Offer Circular"). The Offer Circular contains a notice convening a general meeting of Hospitality shareholders to be held in electronic format at 11:00 on Thursday, 19 November 2020 to consider and, if deemed fit, pass the resolutions required to implement the Offer ("Hospitality General Meeting").

Acquisition of interests in associates

On 1 October 2020, Hospitality entered into a sale of shares agreement with the previous controlling shareholders of Vexicure Pty Ltd ("Vexicure"). Hospitality previously held 5% of the issued shares of Vexicure and through the Vexicure sale agreement, Hospitality has increased its shareholding in Vexicure to 85% by acquiring 80% of the shares in Vexicure. Vexicure is the tenant company for the Westin hotel in Cape Town and the current lease agreement between Hospitality and Vexicure will remain in force.

On 1 November 2020, Hospitality also entered into a sale of shares agreement with the previous controlling shareholders of Ash Brook Investments 72 (Pty) Ltd ("Ash Brook"). Hospitality previously held 15% of the issued shares of Ash Brook and through the Ash Brook sale agreement, Hospitality has increased its shareholding to 100% by acquiring 85% of the shares in Ash Brook. Ash Brook is the tenant company for the Radisson Blu Gautrain hotel in Sandton and the current lease agreement between Hospitality and Ash Brook will remain in force.

As a result, it is likely that these two associate entities will be consolidated from their respective acquisition dates.

15. COMMITMENTS

The group spent R12 million on maintenance capital expenditures for the six months ended 30 September 2020. The capital expenditure programme has been suspended, with only emergency capital expenditures being incurred.

Administration

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Computershare Investor Services Proprietary Limited

SPONSOR
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Directors
M von Aulock (Chairman)*, M Ahmed*# (lead independent director), JR Nicolella*,
MR de Lima (CEO), R Erasmus (FD), Mr J Awbrey*#, SC Gina*#, LM Molefi*#, Mr TF Mosololi*#,
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