Chairman and Chief Executive Officer's report

Mara de Lima
CEO

Marcel von Aulock
Chairman

AS WE NAVIGATE THIS CHALLENGING TIME, OUR PRIORITY AS A LEADERSHIP TEAM IS ON PROTECTING THE LONGEVITY AND SUSTAINABILITY OF THE BUSINESS AND ENSURING ITS RESILIENCE INTO THE FUTURE.

Dear stakeholders

Challenges have become synonymous with business in South Africa. This financial year ended in a global meltdown due to Covid-19, which wreaked havoc across the globe. When the first case was diagnosed in South Africa in March 2020, we found ourselves in the eye of the storm at our financial year end. This, together with the declaration of a national lockdown, created a lot of uncertainty in the future outlook of many businesses, including ourselves, and it appears the worst is not yet behind us. The past three years saw a constant decline in GDP in South Africa (2017: 1.4%, 2018: 0.8%, 2019: 0.2%) and 2020 continues to follow the trend, with the Covid-19 crisis likely to push South Africa into a full recession. We remain focused on our strategic objectives to sustain, optimise and grow our business.

While the economic climate remained difficult, the business performed well, gaining momentum leading up to March. Revenue was expected to grow between 3% and 5% before the impact of Covid-19, which wiped out all growth prospects, and left the year's revenue down by 7% on the prior year.

The first quarter of FY2021 is characterised by the national lockdown announced by President Cyril Ramaphosa on 23 March 2020 in terms of his powers under the Disaster Management Act, 2002, and the State of Emergency Act, 1997. The lockdown was effective from 26 March 2020 to contain the spread of Covid-19. The lockdown was extended to 30 April 2020 and beyond to slow the spread of Covid-19. During this time, many industries came to a grinding halt and closing most hotels was necessary. Tenants sought relief from landlords through the supervening impossibility of performance, and with little to no revenue, municipal rates and other property-related costs remain a burden to be serviced.

The hospitality industry was hit hard by Covid-19, with severe restrictions placed on travel and entertainment. Although the restrictions are being lifted, the fear instilled, and the hype created through social media, will see the prospective traveller remaining cautious and delaying business and leisure travel, not to mention the obvious crunch on disposable income.

Hospitality did not declare a final dividend at 31 March 2020 in order to protect the sustainability of the business. In respect of the final distribution, the board of directors, after considering and applying the relevant solvency and liquidity test as defined in the Companies Act, could not reasonably conclude that the company would meet the liquidity requirement after completing the final distribution. This was as a result of the Company not expecting to meet its interim and year-end bank covenant liquidity requirements. Lenders provided a waiver to these requirements to 30 September 2020 and would only consider waiving the year-end covenant requirements to 31 March 2021, during September 2020. As a result of the partial waiver to 30 September 2020, Hospitality's debt becomes current and influences the outcome of the liquidity test. Distributable income ended 14% down on the prior year at R522 million.

Hotel occupancies for the Fund ended at 60.3% (down 3.7% on the prior year). This was driven by the significant impact of Covid-19 in March 2020, which traditionally is a high occupancy month in the South African market. The results over the year were inconsistent from month to month and from region to region. The Western Cape recovered from the water crisis in FY2019 and was achieving double digit growth of 18% on the prior year before the impact of Covid-19. The first quarter of trading included national elections in May and school holidays separated from the Easter holidays in April. This resulted in subdued business travel which had a negative impact on corporate hotels.

Hospitality acquired Southern Sun Pretoria in September 2019 for R200 million. The hotel comprises 240 rooms and is in the centre of Pretoria, which complements the Fund's portfolio, especially in the government sector. Hospitality also acquired three additional sections in the Sandton Eye Sectional Title Scheme ('the Scheme'), which comprises Radisson Gautrain Hotel, increasing the Fund's ownership of the Scheme to 82%.

Refurbishments at Westin Hotel in Cape Town and Arabella Hotel, Golf and Spa in Hermanus started in 2018. These refurbishments were completed in 2019 at a cost of R89 million. Garden Court Hatfield Hotel also started its refurbishment, with a capital spend of R11 million to March 2020, and is expected to be completed towards the latter part of FY2021 (trading dependent). The remaining capital expenditure of R120 million was spent on replacing hotel furniture, equipment and other smaller projects across the remaining 51 hotels.

Chairman and Chief Executive Officer's report continued

The Fund's property portfolio was independently valued at 31 March 2020 by a newly appointed valuation company, De Leeuw Group. At the time of the valuations, the South African 10-year bond yield increased to 10.5%, resulting in higher discount rates used to discount future cash flows, and significantly reduced future cash flows due to the uncertainty of the impact of Covid-19. The portfolio was valued at R10 billion, resulting in an impairment of R2.5 billion.

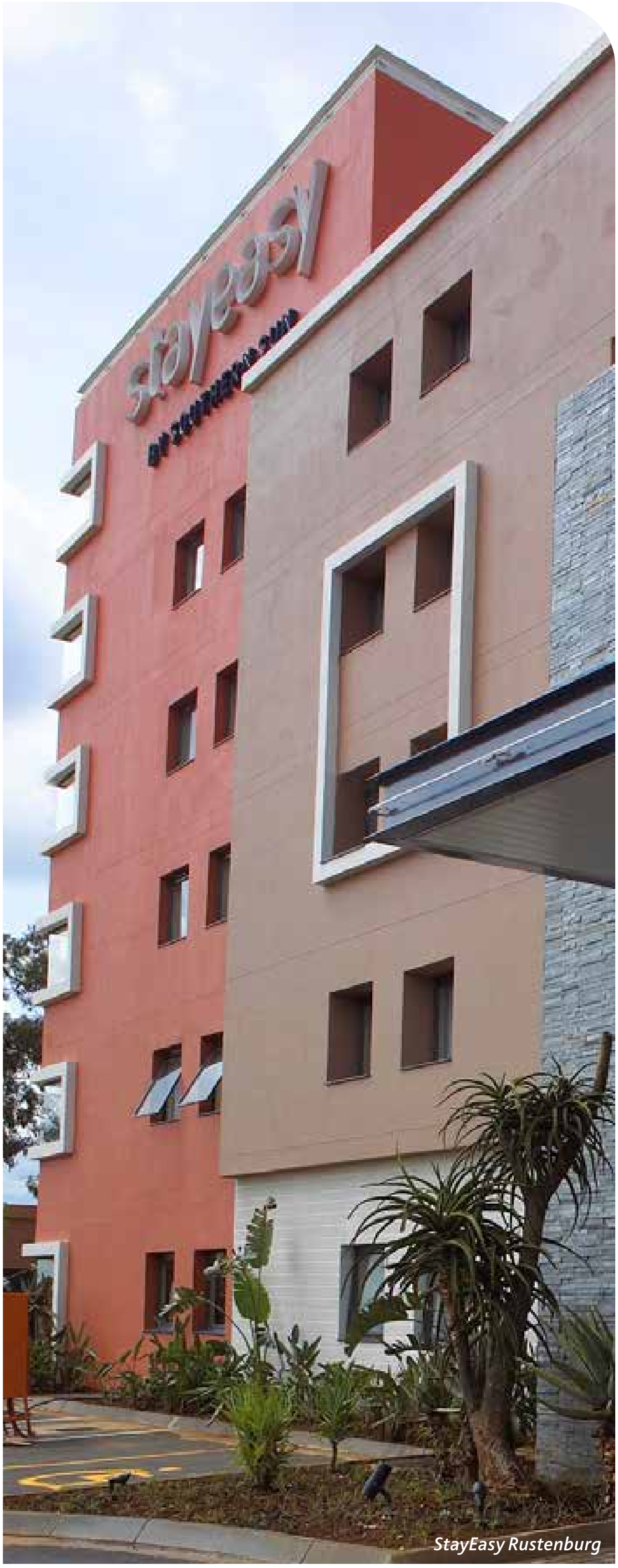
Hospitality's gearing remains within acceptable levels, with an LTV ratio of 26% at 31 March 2020. However, debt levels are expected to increase until some normality in hotel trading is achieved.

Ethical and responsible leadership is critical to the success and sustainability of the Fund and we remain committed to good governance. Hospitality's Board was reconstituted with a new executive management team, effective from 1 June 2019. The reconstituted Board increased black and female representation on the Board as set out on pages 44 and 45. Hospitality retained its level 1 B-BBEE rating under Tsogo Sun Hotels Limited.

As we navigate this challenging time, our priority as a leadership team is to protect the longevity and sustainability of the business and ensure its resilience into the future. Our relationships with our employees, shareholders and business partners are built on principles of trust, honesty and fairness. In adversity, these relationships create strong partnerships and we are grateful to all our partners. Our lenders were extremely supportive, suppliers were understanding and met our needs, employees agreed to furlough at reduced pay and we gained invaluable guidance and support from our majority shareholder, Tsogo Sun Hotels. The Board extends its appreciation to Hospitality's stakeholders for their invaluable support during this challenging time. The Fund has a strong diversified portfolio, an appropriate capital structure and the right ethical leaders to push through this adversity, and continue serving its stakeholders into the future.

Marcel von Aulock
Chairman

Mara de Lima
CEO



StayEasy Rustenburg

Financial Director's review

- Dividends paid per share for the year ended 31 March 2020 amounted to 35.40 cents. This dividend related to the interim period ended 30 September 2019. Hospitality did not declare a final dividend for the year ended 31 March 2020.
- Revenue for the year ended 31 March 2020 decreased by R60 million (7%) to R768 million (2019: R828 million). The decrease in revenue was mainly due to prevailing weak macro-economic conditions, particularly in Gauteng where rental income decreased by 14% year on year, and the impact of Covid-19. Rental income for March 2020 amounted to R16 million compared to rental income for March 2019 of R111 million.

LTV ratio at
26%
for the year ended 31 March 2020

Weighted average **cost of net debt** reduced to
9.1%
(2019: 9.6%)

Riaan Erasmus
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Financial Director's review continued

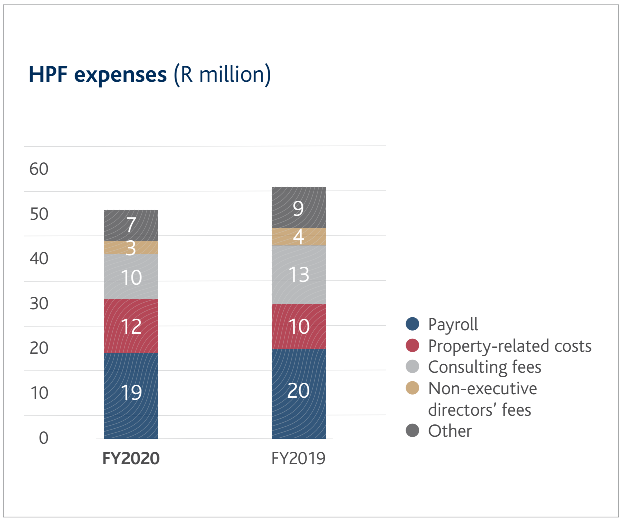
Distributions

The Board did not declare a distribution for the six months ended 31 March 2020. Total distributable earnings per share for the year amounted to 90.37 cents (2019: 105.39 cents), of which 35.40 cents (2019: 42.11 cents) was distributed as a dividend on 17 December 2019. The Fund's distributable earnings for the year decreased by 14% to R522 million, mainly due to the significant impact of Covid-19, and the prevailing weaker trading conditions in Gauteng. The Fund owns 54 properties valued at R10 billion (2019: R12 billion). The Western Cape is the largest contributor to rental income at 40%, followed by Gauteng at 30%, with the rest of South Africa and SUN1 contributing 23% and 7% respectively. Fixed rental income represented 67% of rental income (2019: 60%).

Hospitality's operating expenses for the year decreased by R5 million, or 9%, to R51 million, excluding the R20 million transaction costs relating to the unsuccessful casino acquisition in the prior year. The decrease in costs relates primarily to payroll-related savings due to the implementation of efficiencies, and savings in legal and consulting fees.

Net finance costs of R195 million (2019: R167 million) are higher than the prior year due to the acquisition of Southern Sun Pretoria for R200 million and capital expenditures financed through borrowings, partially offset by lower margins negotiated in the new borrowing facilities raised during the year.

Year-on-year expenses (excluding transaction costs) are summarised as follows:

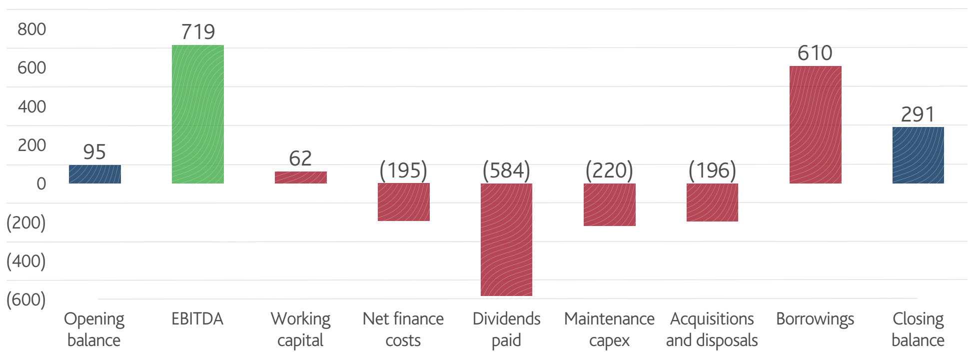



Edward Hotel KwaZulu-Natal

The decrease in payroll costs is largely due to implementing efficiencies and restructuring the staff complement. The short-term incentive ('STI') bonus objectives consist of four categories. More information is available in the remuneration section on page 47.

Property-related costs include levies and property taxes on sectional title schemes. Property taxes of freehold hotel properties are accounted for in the hotel income statement before rent. Consulting fees include audit, investor relations-related and legal fees.

Cash flow analysis (R)



Liquidity

Hospitality successfully refinanced maturing borrowings during the year at lower margins.

Hospitality issued a secured corporate bond (HPF12) in April 2019 of R300 million to refinance borrowings of R230 million (HPF08 and HPF09), and to fund capital expenditures.

Hospitality issued a secured corporate bond (HPF13) in December 2019 of R800 million to refinance borrowings of R560 million (term loan and HPF06) and raised an additional revolving credit facility with Nedbank of R250 million to fund capital spend.

Total cash and unutilised borrowings amounted to R691 million at year end, and should provide sufficient liquidity to Hospitality over the next 12 months.

Borrowings	Type	Maturity	Facility R million	Utilised R million
Standard Bank	Term	31 August 2022	500	500
Standard Bank	Revolving credit facility	19 December 2022	500	200
Nedbank	Revolving credit facility	13-month notice	250	150
Corporate bond – HPF11	Term	31 March 2023	600	600
Corporate bond – HPF12	Term	31 March 2024	300	300
Corporate bond – HPF13	Term	30 September 2024	800	800
Total facilities			**2 950**	**2 550**
Average maturity		**3.20 years**		

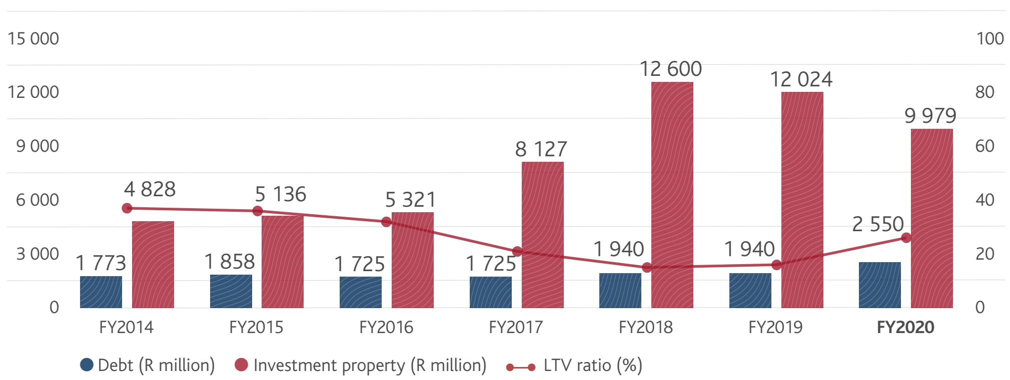
Hospitality entered into an interest rate swap of R500 million in January 2020 at a fixed rate of 6.69%, which will mature on 30 September 2024. Total effective fixed rate facilities amounted to R1.6 billion or 54%.

Interest rate hedges	Maturity	Fixed rate %	Nominal value R million
Swap 1	31 March 2022	7.42	500
Swap 2	30 June 2022	7.24	300
Swap 3	31 March 2023	7.16	300
Swap 4	30 September 2024	6.69	500
			1 600

Covenant requirements

Hospitality's LTV ratio reduced from 37% in FY2014 to 16% in FY2019, but increased to 26% at 31 March 2020 due to increased borrowings (R610 million) to fund the Southern Sun Pretoria property and capital expenditures across the portfolio, together with a significant decrease in the valuation of the property portfolio (R2.5 billion). The decrease in the property portfolio was mainly due to the significant impact of Covid-19 on the valuation of the property portfolio. Due to the uncertainty of future trading conditions, the forecasts were significantly reduced in year one and two when compared to actuals as at 31 March 2020. The South African 10-year bond yield increased by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%). Hospitality used a risk-free rate of 8.65% in 2019, compared to 10.50% in 2020, resulting in higher exit yields and higher discount rates across the portfolio. Hospitality's low gearing, together with its access to borrowing facilities, enables us to be financially resilient in volatile trading conditions.

LTV ratio



Financial Director's review continued

The interest cover ratio of 3.7 times (2019: 4.5 times) for the 12 months rolling to 31 March 2020 is well above the required debt covenant minimum of 2.0 times. Net debt to EBITDA for the 12-month rolling period to 31 March 2020 was 3.2 times (2019: 2.5 times), which was within the required maximum of 3.5 times. The weighted average cost of net debt to 31 March 2020 is 9.1% (2019: 9.6%). On 27 March 2020, Global Credit Ratings Co. affirmed Hospitality's national long-term and short-term issuer ratings of A-(ZA) and A2(ZA) respectively; however, the ratings were placed on Rates Watch Negative. Concurrently, the ratings assigned to the senior secured notes issued by HPF were affirmed at AA(ZA)(EL), also on Rating Watch Negative. The rationale for the Rates Watch Negative reflects the projected loss of earnings for hotel operators due to restrictions imposed to combat Covid-19.

Prospects

Hotel trading is expected to remain under pressure until the outlook for the South African economy improves. Covid-19 and the subsequent lockdown of the economy on 27 March 2020 had a profound impact on the tourism industry. Hospitality's portfolio comprises 54 hotels operating in the hospitality sector, which is one of the industries most severely impacted by Covid-19.

The measures taken by government to limit the spread of Covid-19 and the resultant inability of people to travel internationally and inter-provincially will limit the demand for hotel rooms, which will significantly impact Hospitality's revenue stream for FY2021.

Although the impact of Covid-19 is expected to have a longer-term impact on the hospitality industry and Hospitality, management could not quantify the full impact at the date of this report. It is expected that the recovery of the industry will be slow due to uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals to spend on hotel accommodation and conferences.

Due to the South African lockdown, we closed most of Hospitality's portfolio. Our portfolio could not generate revenue during lockdown, and together with the expected slow recovery once the hotels can open and operate, Hospitality will not be able to meet its net debt to EBITDA and interest cover covenant requirements in terms of its funding agreements for the measurement periods 30 September 2020 and possibly 31 March 2021. Hospitality's gearing levels remain manageable, with the LTV ratio being 26% at 31 March 2020.

To partially reduce the impact of Covid-19 on Hospitality, preserve cash and ensure we can continue operating as a going concern, the following steps were implemented:

- The capital expenditure programme was suspended, with only emergency capital expenditures to be considered
- Waivers were obtained from lenders on our net debt to EBITDA and interest cover covenant requirements for the measurement period 30 September 2020, with the request for waiver of 31 March 2021 to be considered after 30 September 2020
- The capitalisation of bank funding interest to the Group's revolving credit facilities was implemented
- Operating costs, such as salaries and wages, were reduced through implementing furlough
- Extended payment terms from major creditors were obtained
- Initiatives to support tenants to ensure their sustainability in terms of lease agreements are in place

Cash and undrawn facilities amounted to R691 million at year end, which will provide sufficient liquidity to Hospitality over the next 12 months. By regularly engaging with our lenders through updates on operations and cash flow forecasts, they remain informed and supportive of the Fund during this difficult period.

Due to the uncertainty regarding Hospitality's ability to comply with its covenant requirements (as detailed above), the Board of Directors did not declare a final dividend for the year ended 31 March 2020.

As we look ahead, I want to thank our staff and teams for their dedication in this difficult time. To our other stakeholders, we look forward to serving you in the year ahead, as we navigate this challenging operating context together.

Riaan Erasmus
Financial Director

Radisson Blu Cape Town