



HOSPITALITY PROPERTY FUND LIMITED

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

TSOGO SUN HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)
Registration number: 1989/002108/06
Share Code: TSH
ISIN: ZAE000156238
("TsoGo")

ACQUISITION OF A PORTFOLIO OF HOTELS FROM TSOGO AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. INTRODUCTION

Further to the cautionary announcements released by Hospitality on the Stock Exchange News Service of the JSE ("SENS"), the last of which was dated 2 May 2017, the boards of directors of Hospitality and TsoGo are pleased to announce that Hospitality has entered into agreements with The Cullinan Hotel Proprietary Limited ("Cullinan"), Merway Fifth Investments Proprietary Limited ("Merway") and Southern Sun Hotels Proprietary Limited ("SSH") (all of which are wholly owned subsidiaries of TsoGo) (the "**Transaction Agreement**") for the acquisition of a portfolio of 29 hotel properties and each of the hotel letting businesses conducted in respect of such properties (the "**TsoGo Portfolio**"), for an aggregate purchase consideration of R3.6 billion (the "**Purchase Consideration**") ("**the Transaction**"), which was calculated on an income for income basis.

2. RATIONALE

2.1 Rationale for Hospitality

The Transaction is in-line with the Company's growth strategy of acquiring value enhancing properties, both from within TsoGo's existing portfolio and external opportunities, to increase the Company's critical mass.

The Transaction represents an attractive acquisition for Hospitality, with the TsoGo Portfolio comprising 29 successful and established hotel properties, which are well located within their respective nodes. The Transaction will contribute to a broadening of Hospitality's earnings base, brand and product offering and greater presence in primary metropolitan areas and add an additional 3,771 rooms catering for both business and leisure travellers.

Furthermore, Hospitality's greater scale is expected to reduce its cost of funding whilst providing the Company with access to capital for future opportunities.

2.2 Rationale for TsoGo

The Transaction represents the next steps for TsoGo's entertainment and hospitality focused property strategy through the inclusion of an additional spread of attractive hotel properties into Hospitality.

TsoGo currently holds 50.6% of the issued ordinary shares of Hospitality. The cash portion of the Purchase Consideration of R1.03 billion will be utilised by TsoGo to reduce interest-bearing borrowings. The balance of the Purchase Consideration will be settled by the issue of 174 064 861 Hospitality ordinary shares which TsoGo is intending to retain.

3. TERMS OF THE TRANSACTION

3.1 Salient terms

In terms of the Transaction Agreement, Hospitality will acquire 100% of the SSH shares in and claims against Cullinan and the SSH shares in Merway (collectively, the “**sale equity**”) with effect from 1 July 2017 (the “**Effective Date**”) subject to the fulfilment or waiver, as the case may be, of the conditions precedent as set out in paragraph 6 below. Cullinan and Merway own the Tsogo Portfolio, further details of which are set out in paragraph 4.1 below.

The Purchase Consideration will be discharged by Hospitality via:

- a cash payment to SSH of R1.03 billion on the Effective Date; and
- the issue to SSH by Hospitality of 174 064 861 Hospitality ordinary shares (the “**Consideration Shares**”) on 5 July 2017 (the “**Closing Date**”), in respect of the balance of the Purchase Consideration.

The Consideration Shares will rank *pari passu* with the existing ordinary shares in issue, be fully paid up and transferrable.

Ownership, risk and benefit in and to the sale equity will pass to Hospitality on the Effective Date. Ownership, risk and benefit in and to the Consideration Shares will vest in SSH with effect from the Effective Date.

3.2 Clean-out Dividend

Within five business days of 1 June 2017 (the “**Clean-Out Dividend Date**”), the directors of Hospitality will, subject to the solvency and liquidity requirements of section 46 of the Companies Act 71 of 2008 (the “**Companies Act**”), declare a clean-out dividend (the “**Clean-Out Dividend**”) to those Hospitality shareholders who are registered as such on the record date for participation in the clean-out dividend (the “**Clean-Out Dividend Record Date**”) of an amount equal to Hospitality’s distributable profit for the period beginning on 1 April 2017 and ending on the Clean-Out Dividend Date as determined by the board of directors of Hospitality (“**Hospitality Board**”). The Clean-out Dividend facilitates that only shareholders registered on the Clean-Out Dividend Record Date will participate in Hospitality’s distributable income earned from 1 April 2017 to the Clean-Out Dividend Date, irrespective of whether or not such shareholders elect to participate in the Rights Offer (defined below). The Consideration Shares are to be issued “ex” entitlement to the Clean-Out Dividend. An announcement containing full details of the Clean-Out Dividend, including the tax treatment and associated timetable for the payment thereof, will be released on SENS and published in the press.

3.3 Other material terms

The Transaction Agreement contains terms and warranties which are common for transactions of this nature.

4. OVERVIEW OF THE TSOGO PORTFOLIO

4.1 Overview of the Tsogo Portfolio

A snapshot of the Tsogo Portfolio is set out below:

Hotel name	Location	Vendor	Rooms	Valuation (R'000)
Southern Sun The Cullinan	1 Cullinan Street, Waterfront, Cape Town, Western Cape	Cullinan	394	1 114 108
Southern Sun, Waterfront Cape Town	1 Lower Buitengracht Street, Waterfront, Cape Town, Western Cape	Cullinan	537	1 186 176
Southern Sun, Katherine Street Sandton	115 Katherine Street, Sandown, Sandton, Gauteng	Cullinan	122	86 175
Garden Court Eastgate	Ernest Oppenheimer Avenue, Bruma, Gauteng	Cullinan	157	151 389
Garden Court Hatfield	Cnr Pretorius and End Streets, Hatfield, Gauteng	Cullinan	157	170 266
Garden Court King's Beach	La Roche Drive, Hunewood, Port Elizabeth, Eastern Cape	Cullinan	280	190 305
Garden Court Morningside	Rivonia Road, Cullinan Close, Morningside, Gauteng	Cullinan	150	171 334
StayEasy Eastgate	8 South Boulevard, Bruma, Gauteng	Cullinan	135	86 423
StayEasy Pietermaritzburg	50 Sanctuary Road, Chase Valley, Pietermaritzburg, KwaZulu Natal	Cullinan	127	137 199
Garden Court Umhlanga	Cnr Aurora Drive & Centenary Boulevard, Umhlanga Ridge, KwaZulu Natal	Cullinan	204	298 942
Sun1 Alberton	St Austell Street, Alberton, Gauteng	Merway	76	69 410
Sun1 Benoni	Cnr Bunyan & Mowbray Avenue, Benoni, Gauteng	Merway	58	24 334
Sun1 Berea	1 Mitchell Street, Berea, Gauteng	Merway	69	32 132
Sun1 Bloemfontein	Cnr Krige and Nelson Mandela Drive, Bloemfontein, Free State	Merway	64	35 230
Sun1 Foreshore	Jan Smuts & Martin Hammerschlag Way, Foreshore, Cape Town, Western Cape	Merway	64	60 005
Sun1 Edenvale	130 Boeing Road East, Edenvale, Gauteng	Merway	76	11 786
Sun1 Kimberley	Cnr Memorial & Welgevonden Avenue, Royalglen, Kimberley, Northern Cape	Merway	64	21 841
Sun1 Midrand	Cnr Old Pretoria Road & K101 Street, Midrand, Gauteng	Merway	94	88 022
Sun1 Milnerton	Cnr Koeberg Road & Freedom Way, Milnerton, Western Cape	Merway	70	67 516
Sun1 Nelspruit	Cnr Kaapsehoop & N4 Streets, Nelspruit, Mpumalanga	Merway	76	52 042
Sun1 O.R. Tambo	Cnr Herman & Kruin Streets, Isando, Gauteng	Merway	78	33 244
Sun1 Parow	Cnr Arnold Wilhelm & Jean Simonis Streets, Parow, Western Cape	Merway	76	64 796
Sun1 Port Elizabeth	Cnr La Roche Drive & Beach Road, Port Elizabeth, Eastern Cape	Merway	88	69 922
Sun1 Pretoria	81 Pretorius Street, Pretoria, Gauteng	Merway	135	135 612
Sun1 Richards Bay	6 White Pear Road, Richards Bay, KwaZulu Natal	Merway	64	27 774
Sun1 Southgate	Cnr Columbine Avenue & Rifle Range Road, Southgate, Gauteng	Merway	138	91 231
Sun1 Vereeniging	Cnr Beethoven & Voortrekker Streets, Vereeniging, Gauteng	Merway	41	16 462
Sun1 Witbank	3 Pioneer Avenue, Witbank, Mpumalanga	Merway	90	29 881
Sun1 Wynberg	1 Maree Street, Bramley Park, Johannesburg, Gauteng	Merway	87	30 229
Total			3 771	4 553 786

1. The Tsogo Portfolio is all classified as being in the hospitality sector.
2. The Tsogo Portfolio will be acquired on the Effective Date.
3. As the Tsogo Portfolio is being acquired by Hospitality through its acquisition of 100% of the shares in and claims against Cullinan and Merway, no purchase price per property has been ascribed.
4. The average daily rate of the hotel properties acquired from Cullinan and Merway is R1 269 and R472, respectively.
5. All of the properties are fully tenanted.
6. The Tsogo Portfolio was valued as at 31 March 2017 by Bryan Nyagah of JHI, who is an independent external valuer registered in terms of the Property Valuers Association Act, (Act 47 of 2000).

4.2 Overview of the lease terms

The Tsogo Portfolio will be leased from Hospitality by ResHub Proprietary Limited (“**ResHub**”) and managed by Southern Sun Hotel Interests Proprietary Limited (both of which are indirect wholly-owned subsidiaries of Tsogo).

A Tsogo lease agreement in respect of each of the properties making up the Tsogo Portfolio has been concluded for an initial period of 20 years with multiple 10 year renewal options (“**Lease Agreements**”).

The rentals payable in terms of each of the Lease Agreements comprise a 50% fixed component and an approximately 50% variable component which is calculated as 99% of earnings before interest, tax, depreciation and amortisation and rentals less the fixed component. The Lease Agreements are subject to additional terms and conditions which are customary for leases of this nature, including standard performance conditions and are substantially the same as the initial leases entered into between ResHub and Hospitality, as part of the transaction concluded in September 2016 in which Tsogo acquired a controlling interest in Hospitality.

4.3 Forecast financial information

Set out below are extracts from the profit forecast of the Tsogo Portfolio (the “**forecasts**”) for the nine months ending 31 March 2018 and year ending 31 March 2019 (the “**forecast period**”). The forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the Hospitality Board.

The forecasts have been prepared on the assumption that the Transaction will be effective from 1 July 2017 and on the basis that the forecasts include forecast results for the duration of the forecast period. The forecasts have not been reviewed or reported on by independent reporting accountants. The forecasts have been prepared in accordance with Hospitality’s accounting policies, which are in compliance with International Financial Reporting Standards.

R’000	Forecast for the 9 months to 31 March 2018	Forecast for the year ending 31 March 2019
Revenue	299 372	391 941
Rental income – contractual	299 372	391 941
– straight line	-	-
Operating expenses	(5 477)	-
Operating profit	293 894	391 941
Net finance cost	(3 832)	-
Total profit and comprehensive income for the period/year	290 062	391 941
Profit available for distribution for the period/year	290 062	391 941

Notes and assumptions:

The forecasts incorporate the following material assumptions in respect of revenue and expenses that can be influenced by the Hospitality Board:

1. The forecasts have been prepared on an aggregated basis for the Tsogo Portfolio.
2. The forecasts are based on information derived from the management accounts of the Tsogo Portfolio, the budgets prepared by their respective management, rental contracts and independent property valuations.
3. According to each property’s rental agreement, rental income is based on a contracted fixed and variable portion of each property’s forecast earnings before interest, depreciation, tax, and amortisation, and is derived

from the forecasts provided to Hospitality by the management of the Tsogo Portfolio. No uncontracted or near contracted rental income is forecast.

4. The operational cost structure of Hospitality is not anticipated to change as a result of the acquisition of the Tsogo Portfolio.
5. Transaction costs of R5.47 million are incurred in relation to the acquisition of the Tsogo Portfolio.
6. Finance costs are recognised at Hospitality's weighted average cost of debt of 9.7% p.a on the cash portion of the Purchase Consideration of R1.03 billion raised for the period from the expected effective date of 1 July 2017 to the expected date of receipt of proceeds from the Rights Offer, being 15 July 2017.
7. No properties are under development during the forecast period.
8. No lease contracts expire during the forecast period.
9. No fair value adjustments are applied to the Tsogo Portfolio over the forecast period.
10. All existing lease agreements are valid.

The forecasts incorporate the following material assumptions in respect of revenue and expenses that cannot be influenced by the Hospitality Board:

1. The effective date of the transaction is assumed to be 1 July 2017.
2. There will be no unforeseen economic factors that will affect the lessee's ability to meet their commitments in terms of existing lease agreements.

5. RIGHTS OFFER

Subject to receiving the requisite JSE approvals, Hospitality intends to undertake a fully underwritten rights offer to raise R1.8 billion (the "**Rights Offer**"). Further details of the Rights Offer will be announced in due course and a circular in respect of the Rights Offer will be posted to shareholders. The Rights Offer proceeds will be used to partially settle the cash portion of the Purchase Consideration referred to in paragraph 3.1 above, with the balance being utilised to reduce Hospitality's interest bearing debt.

The Rights Offer shares will be issued excluding the right to participate in the Clean-Out Dividend.

6. CONDITIONS PRECEDENT

The Transaction is subject to the fulfilment or waiver, as the case may be, of the following conditions precedent:

- 6.1 the passing of all the resolutions required to approved the Transaction and the issue of the Consideration Shares by the requisite majority of Hospitality shareholders in accordance with the JSE Listings Requirements and the Companies Act; and
- 6.2 all applicable regulatory approvals for the implementation of the Transaction being obtained from the JSE.

7. RECOMMENDATION AND FAIRNESS OPINION

As SSH holds 50.6% of the total share capital of Hospitality, it is regarded as a material shareholder of Hospitality in terms of the JSE Listings Requirements. Consequently, the Transaction constitutes a transaction with a related party in terms of paragraph 10.4(f) of the JSE Listings Requirements.

As such, Hospitality has appointed Mazars Corporate Finance Proprietary Limited as the independent expert ("**Independent Expert**") to make the appropriate recommendations in the form of a fairness opinion as required in terms of paragraph 10.4 of the JSE Listings Requirements.

Whilst the contents of the Independent Expert's advice and opinion and the final views of the Hospitality Board will be detailed in the circular referred to in paragraph 8, the Independent Expert's preliminary view is that the Transaction is fair to Hospitality shareholders.

Based on the above, the Hospitality Board is supportive of the Transaction and anticipates making a recommendation to Hospitality shareholders to vote in favour of the resolutions to be proposed at the general meeting of Hospitality shareholders to be convened to consider the Transaction.

8. CATEGORISATION OF THE TRANSACTION

In terms of the JSE Listings Requirements, the Transaction constitutes both a Category 1 and related party transaction for Hospitality and therefore Hospitality shareholder approval is required. A circular convening a general meeting and providing further information on the Transaction (including a report prepared by the Independent Expert as to the fairness of the Transaction and including revised listings particulars) will be sent to Hospitality shareholders in due course.

In terms of the JSE Listings Requirements, the Transaction is a Category 2 transaction for Tsogo and, accordingly, does not require approval by Tsogo shareholders.

9. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

Shareholders are referred to the cautionary announcements issued by Hospitality in relation to the Transaction, the last of which was released on SENS on 2 May 2017 and are advised that on the basis of the above caution is no longer required to be exercised when dealing in the Company's shares.

10. CHANGE OF NAME

Subsequent to Tsogo becoming a majority shareholder of Hospitality, the Hospitality Board proposes that the name of the Company be changed from "Hospitality Property Fund Limited" to "Tsogo Sun Property Fund Limited", which name has been reserved with the Companies and Intellectual Properties Commission.

Subject to the passing and the registration of the special resolution necessary for the change of name, expected trading in the new name "Tsogo Sun Property Fund Limited" on the JSE under the JSE share code "TSP" and ISIN ZAE000243903 is anticipated to commence on Wednesday, 26 July 2017. The relevant dates and times will be announced in due course.

18 May 2017

Corporate advisor and sponsor to Hospitality



Sponsor to Tsogo



Independent Expert



Independent reporting accountant

