



TSOGO SUN HOLDINGS LIMITED

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



HOSPITALITY PROPERTY FUND LIMITED

(Incorporated in the Republic of South Africa)
Registration number 2005/014211/06
Share code for A shares: HPA
ISIN for A shares: ZAE000203022
Share code for B shares: HPB
ISIN for B shares: ZAE000203030
(Approved as a REIT by the JSE)
("Hospitality")

TSOGO TO ACQUIRE CONTROL OF HOSPITALITY BY VENDING A PORTFOLIO OF HOTELS INTO HOSPITALITY IN EXCHANGE FOR HOSPITALITY SHARES AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. Introduction

Further to the joint announcement to Tsogo and Hospitality shareholders on 18 November 2015, the boards of directors of Tsogo and Hospitality are pleased to announce the salient terms of the transaction between Tsogo and Hospitality in terms of which Hospitality will acquire from Southern Sun Hotels Proprietary Limited ("**SSH**") (an indirect wholly-owned subsidiary of Tsogo) a portfolio of 10 hotel properties described in paragraph 4.1 below (the "**Properties**") and each of the property letting businesses conducted in respect of such Properties (the "**Tsogo Portfolio**"), through the acquisition of 100% of the issued shares of a newly incorporated company which will own the Tsogo Portfolio, in exchange for the issue to SSH of 145 000 000 Hospitality ordinary shares ("**Consideration Shares**") which number may be subject to adjustment on the basis referred to in paragraph 3.2.1 below ("**the Transaction**"). The Transaction is conditional upon, *inter alia*, the restructure of Hospitality's dual-class share capital structure to a single-class share capital structure based on a swap ratio of 3.5 Hospitality B ordinary shares ("**B Shares**") for every 1 Hospitality A ordinary share ("**A Shares**"), on the basis described in paragraph 3.1 below ("**the Restructure**"), such that, as a result of SSH's holding of the Consideration Shares as well as SSH's existing holding of 78.3 million Hospitality B shares, Tsogo will hold, indirectly via SSH, in excess of 50% of Hospitality's ordinary shares in issue post the implementation of the Restructure and the Transaction.

A formal sale of shares agreement in respect of the Transaction was signed on 14 December 2015, between SSH, Southern Sun Hotel Interests Proprietary Limited ("**SSH**"), Eglin Investments No 12 Proprietary Limited and Fezisource Proprietary Limited ("**Newco**") (all indirect wholly-owned subsidiaries of Tsogo) and Hospitality (the "**Agreement**").

2. Rationale

2.1. Rationale for Tsogo

Tsogo highlighted in its March 2015 results that it is considering creating an entertainment and hospitality focused Real Estate Investment Trust ("**REIT**"), into which it would transfer its extensive hotel, retail and office property portfolio.

The Transaction represents the initial steps toward implementing this strategy, with Hospitality's core portfolio representing an attractive spread of hotel properties

complementing Tsogo's portfolio of hospitality assets. It is intended that Hospitality, as a listed REIT, will provide the platform for Tsogo's property strategy going forward.

The Transaction also broadens Tsogo's strategy in relation to its hotel business and allows Tsogo to invest in non-Tsogo branded and managed hotels. Tsogo believes that this strategy will provide it with exciting and lucrative expansion opportunities in the hotel sector in partnership with leading third party hotel brands and managers.

2.2. Rationale for Hospitality

Following the conversion of its linked unit capital structure, Hospitality currently has a dual-class share capital structure consisting of A Shares and B Shares. The A Shares have a preferential right to net income distributions made by Hospitality, with the B Shares having the right to participate only in that portion of Hospitality's net income distributions that remains following payment of the fixed amount due in respect of the A Shares.

As previously disclosed to Hospitality shareholders (most recently in the Integrated Annual Report 2015), the board of directors of Hospitality (the "**Hospitality Board**") is, and has for some time been, of the view that the dual-class share capital structure is not in the best interests of the company and that it has been a major impediment to the effective operation of Hospitality's business. The Hospitality Board believes that a simplified capital structure will allow Hospitality to deliver more easily on its strategic objectives in the longer term, and the possibility of converting to a single-class share capital structure has therefore been a key focus area for Hospitality in recent years.

Following engagement with shareholders, indications are now that there is a high level of shareholder support for such a conversion insofar as it is implemented in the broader context of the Transaction. The Transaction therefore presents a mechanism by which Hospitality can achieve the desired restructure of its share capital.

In addition, the Transaction presents a highly attractive acquisition for Hospitality, with the Tsogo Portfolio comprising ten 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 and should introduce an element of stability to earnings, through exposure to the relatively predictable cash flows generated by the Tsogo Portfolio. As the Tsogo Portfolio will be acquired free of any debt, the Transaction will also bring about the reduction of Hospitality's gearing ratio from 36.2% as at 30 June 2015 to 26.9% which, together with Hospitality's greater scale and inclusion as part of the Tsogo group, is expected to reduce Hospitality's cost of funding.

It is also anticipated that the Transaction will see Hospitality forming the platform for Tsogo's strategy of growing a hospitality-focussed REIT. It therefore provides Hospitality with exciting future growth prospects and an attractive pipeline of acquisitions in the medium term, both in terms of Tsogo properties and properties owned by third parties.

Ultimately, while the Restructure will in the short-term dilute the net income distributions to holders of A Shares, it will (together with the Transaction) result in the long-term sustainability of Hospitality's business in the best interests of Hospitality shareholders. This, in the Hospitality Board's view, provides sound and compelling justification for the implementation of both the Transaction and the Restructure.

3. Restructure of Hospitality's share capital and terms of the Transaction

3.1. Overview of the Restructure

Hospitality's dual-class share capital will be restructured to a single-class share capital by way of:

- 3.1.1. the consolidation of the B Shares in a ratio of 3.5 : 1;

- 3.1.2. the conversion of each A Share into a B Share, by way of a scheme of arrangement proposed in terms of sections 114 and 115 of the Companies Act, 2008 ("**Companies Act**");
- 3.1.3. the reclassification of the B Shares as ordinary shares and the subsequent increase in the number of authorised ordinary shares; and
- 3.1.4. the adoption of a new memorandum of incorporation to take account of the change in Hospitality's capital structure.

3.2. Terms of the Transaction

3.2.1. Salient terms

In terms of the Agreement, Hospitality will acquire 100% of the shares in Newco (which will own the Tsogo Portfolio) (the "**Newco Shares**") from SSH in exchange for the issue by Hospitality to SSH of the Consideration Shares. If the amount of Hospitality's indebtedness as at the first day of the month immediately following the month in which the last of the conditions precedent to the Transaction is fulfilled or waived ("**Effective Date**") is greater than R1.7 billion, the number of Consideration Shares to be issued to SSH will be increased to compensate SSH for the diminution in the agreed value of the Hospitality portfolio of assets.

Ownership, risk and benefit in and to the Newco Shares will pass to Hospitality with effect from the Effective Date. While ownership, risk and benefit in and to the Consideration Shares will vest in SSH with effect from the Effective Date, they will only be issued to SSH on the day following the date on which the Restructure is implemented such that Hospitality's capital structure consists of ordinary shares only. Following the implementation of the Restructure and the Transaction, Tsogo will (indirectly, through SSH) hold in excess of 50% of Hospitality's ordinary shares in issue.

Hospitality will appoint five nominees of SSH as directors of Hospitality, effective on the Effective Date.

3.2.2. Clean-out dividend

Hospitality will, subject to the provisions of its memorandum of incorporation and the Companies Act, declare a dividend to those Hospitality A and B shareholders who are registered as such on the record date for participation in the Restructure, of an amount equal to Hospitality's distributable profit as at the Effective Date, and pay such dividend to Hospitality A and B shareholders on the date on which the Restructure is implemented.

4. Overview of the Tsogo Portfolio

4.1. Snapshot of the Tsogo Portfolio

The details of the Properties are as follows:

Hotel property	Location	Rooms	Valuation ^{4,5} (R)
Garden Court South Beach	South Beach, Durban	414	453 612 000
Garden Court O.R.Tambo	Kempton Park, Johannesburg	253	287 404 600
Garden Court Milpark	Auckland Park, Johannesburg	251	240 031 000
Garden Court Polokwane	Polokwane	180	159 236 000
Stay Easy Century City	Milnerton, Cape Town	175	178 353 000
Garden Court Kimberley	Kimberley	135	129 050 000
Southern Sun Newlands	Newlands, Cape Town	162	117 906 000
Stay Easy Rustenburg	Rustenburg	125	85 108 000
Southern Sun Bloemfontein	Bloemfontein	147	89 855 000
Sun Square Cape Town	Gardens, Cape Town	136	39 318 000
			1 779 873 600

1. The properties are classified as being in the Hospitality sector.

2. The weighted average lease expiry period in respect of each Property is expected to be for an initial period of 20 years with a 10 year renewal option. Each time the lessee exercises its option to extend the lease, a further option renewal period of 10 years will be applicable (see paragraph 4.2 below).
3. As the properties are being acquired by Hospitality through its acquisition of 100% of the issued shares in Newco, no purchase price per property has been ascribed.
4. As at 30 September 2015.
5. Independent valuation performed by Bryan Nyagah, an independent and registered professional valuer (Reg. No 6091/4) registered without restrictions in terms of the Property Valuers Professional Act No. 47 of 2000, for JHI Valuation & Advisory Services.

4.2. Overview of the lease terms

The Properties will be leased from Hospitality (through Newco) by Reshub Proprietary Limited (“**ResHub**”) and managed by SSHI, both of which are indirect wholly-owned subsidiaries of Tsogo.

Fixed and variable lease agreements in respect of each of the Properties (“**Lease Agreements**”), which will be classified as operating leases, are expected to be concluded for an initial period of 20 years with a 10 year renewal option. Each time the lessee exercises its option to extend the lease, a further option of 10 years will be applicable.

The rentals payable in terms of the Lease Agreements comprise a 50% fixed component and an approximately 50% variable component which is calculated as 98% of earnings before interest, tax, depreciation, amortisation and rental less the fixed component. The Lease Agreements are subject to additional terms and conditions which are customary for leases of this nature, including performance conditions.

4.3. Forecast financial information

Set out below are the forecast revenue, rental income - contractual, operational net income, net profit after tax and earnings available for distribution (“**the forecasts**”) for the years ending 30 June 2016 and 30 June 2017 (“**the forecast periods**”). The forecasts have been prepared on the assumption that the Restructure and the Transaction were implemented on 30 June 2015 and on the basis that the forecasts include forecast results for the duration of the forecast periods.

The forecasts, including the assumptions on which they are based and the financial information from which they are prepared, are the responsibility of the directors of Hospitality. 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 and in compliance with International Financial Reporting Standards.

	Forecast for the year ending 30 June 2016 ² R'000	Forecast for the year ending 30 June 2017 R'000
Revenue	171 820	197 925
Rental income – contractual ¹	171 820	197 925
Operational net income	171 820	197 925
Finance cost ³	(5 178)	(6 832)
Fair value adjustment on investment properties ⁴	96 391	239 503
Net profit after tax	263 032	430 595
Earnings available for distribution	166 642	191 093

Notes and assumptions

1. The forecasts for the year ending 30 June 2016 and 30 June 2017 have been based on information derived from the management accounts of Tsogo and Hospitality. The rental income was determined based on the Lease Agreements.

2. The forecasts for the year ending 30 June 2016 include the actual results of the respective Properties for the three month period ended 30 September 2015.
3. Finance costs have been calculated based on the weighted average cost of debt for Hospitality as at 30 June 2015, published in the 30 June 2015 Integrated Annual Report. The finance costs have been calculated based on the total capital expenditure as forecast by Tsogo management. It is assumed that Hospitality will raise external debt in order to finance the respective Properties' budgeted capital expenditure.
4. The fair value adjustment on investment properties has been derived from the rental income applying the weighted average capitalisation rate of 10.9% to the year-on-year rental income increase.
5. No straight-lining of leases has been assumed.
6. No transaction costs have been assumed.

5. Conditions precedent

5.1. Restructure conditions precedent

The Restructure will be subject to, *inter alia*, the fulfilment or, if applicable, waiver of the following conditions precedent:

- 5.1.1. the passing of all resolutions required to approve the Restructure by the requisite majorities of Hospitality shareholders;
- 5.1.2. receipt of confirmation by the Companies and Intellectual Property Commission that it has accepted and placed on file the relevant documents required to effect the Restructure;
- 5.1.3. all applicable regulatory and statutory approvals being obtained, including but not limited to, receipt of the requisite compliance certificate in respect of the scheme of arrangement from the Takeover Regulation Panel ("TRP"), as contemplated in section 121 of the Companies Act;
- 5.1.4. shareholders holding more than 5% of Hospitality's total issued shares not validly exercising their rights in terms of section 164 of the Companies Act in respect of the Restructure, within the timeframes specified in that section; and
- 5.1.5. all conditions to the Transaction being duly fulfilled or, if applicable, waived in accordance with its terms, save for any condition precedent to the Transaction relating to the Restructure.

5.2. Transaction conditions precedent

The Transaction will be subject to the fulfilment or waiver (where applicable) of the following conditions precedent:

- 5.2.1. all conditions precedent to which the Restructure is subject being duly fulfilled or, if applicable, waived in accordance with its terms, save for the condition precedent relating to the Transaction becoming unconditional;
- 5.2.2. the passing of all resolutions required both in terms of the Companies Act and the JSE Listings Requirements to approve the Transaction by the requisite majorities of Hospitality shareholders;
- 5.2.3. the passing of an ordinary resolution waiving the requirement for either SSH and/or Tsogo to make a mandatory offer to Hospitality shareholders as a consequence of the implementation of the Transaction by the requisite majority of Hospitality shareholders;
- 5.2.4. a Lease Agreement between Newco (as lessor) and ResHub (as lessee) being in force and enforced as an operating lease in respect of each of the Properties;
- 5.2.5. a License Agreement between SSHI (as licensor) and ResHub (as licensee) and a Management Agreement between SSHI (as manager) and ResHub (as owner), being in force in respect of each of the hotel businesses conducted from the Properties;
- 5.2.6. the JSE unconditionally granting a listing for the Consideration Shares and, to the extent required, approving the documentation to be published and/or issued for the purposes of the Transaction;
- 5.2.7. the TRP, to the extent required, *inter alia*:

- 5.2.7.1. approving the documentation to be published and/or distributed for the purposes of the Transaction; and
- 5.2.7.2. dispensing, in writing, with the obligation on the part of either SSH and/or Tsogo to make a mandatory offer as a consequence of the implementation of the Transaction;
- 5.2.8. the Competition Commission, the Competition Tribunal and/or the Competition Appeal Court, as the case may be, providing unconditional written approval of the joint application for permission for SSH to acquire control of Hospitality, or where such written approval is granted subject to any one or more conditions, Tsogo and/or Hospitality consenting to the imposition of such conditions, as required
- 5.2.9. the Properties being registered in the name of Newco in the appropriate Deeds Registry; and
- 5.2.10. to the extent necessary, third party consents in relation to the change of control provisions in certain contracts to which Hospitality or companies within the Hospitality group are party, being obtained.

6. Recommendation and fairness opinion

Hospitality has appointed Mazars Corporate Finance Proprietary Limited as the independent expert ("**Independent Expert**") to make appropriate recommendations in the form of a fair and reasonable and/or fairness opinion, as the case may be:

- 6.1. as required in terms of section 114(2) of the Companies Act and the Companies Regulations, 2011 in relation to the scheme of arrangement required to implement the Restructure;
- 6.2. as required in terms of regulation 86(7) in relation to the waiver of the obligation on the part of either SSH and/or Tsogo to make a mandatory offer as a consequence of the implementation of the Transaction; and
- 6.3. as required in terms of paragraph 10.4 of the JSE Listings Requirements as a result of the Transaction constituting a related party transaction in terms of Section 10 of the JSE Listings Requirements.

Whilst the contents of the Independent Expert's advice and opinions and the final views of the Hospitality Board will be detailed in the circular referred to in paragraph 7, the Independent Expert has formed an initial view that the scheme of arrangement and the Transaction are fair and reasonable 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 meetings of Hospitality shareholders to be convened to consider the Restructure and the Transaction.

7. Categorisation of the Transaction

In terms of the JSE Listings Requirements, the Transaction constitutes a Category 1 transaction and a related party transaction for Hospitality and, accordingly, requires the approval of Hospitality shareholders. A circular providing further information on the Transaction (including a report prepared by the Independent Expert as to the fairness of the Transaction and including revised listing particulars) and containing a notice of general meeting of Hospitality shareholders to be convened in order to approve the resolutions necessary to implement the Transaction will be distributed to Hospitality shareholders in due course.

Similarly, a circular providing further information on the Restructure (including a report prepared by the Independent Expert in terms of section 114(3) of the Companies Act) and containing notices of general meetings of Hospitality shareholders to be convened in order to approve the resolutions necessary to implement the Restructure will be distributed 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.

8. Withdrawal of Hospitality cautionary announcement

Hospitality shareholders are referred to the cautionary announcements issued in relation to the Restructure and Transaction, the last of which was released on SENS on 18 November 2015 and are advised on the basis of the above that caution is no longer required to be exercised by shareholders when dealing in their Hospitality shares.

15 December 2015

Corporate advisor and transaction sponsor to Tsogo
Investec Bank Limited

Corporate law advisor to Tsogo
Tabacks

Sponsor to Tsogo
Deutsche Securities (SA) Proprietary Limited

Corporate advisor and transaction sponsor to Hospitality
Java Capital

Corporate law and tax advisor to Hospitality
ENS Africa

Independent Expert
Mazars Corporate Finance Proprietary Limited

Sponsor to Hospitality
Rand Merchant Bank (A division of FirstRand Bank Limited)