

Hospitality

PROPERTY FUND

Annual Report 2007



100,46c

DISTRIBUTION
per A-linked unit (cents)

Per forecast

DISTRIBUTION
per A-linked unit

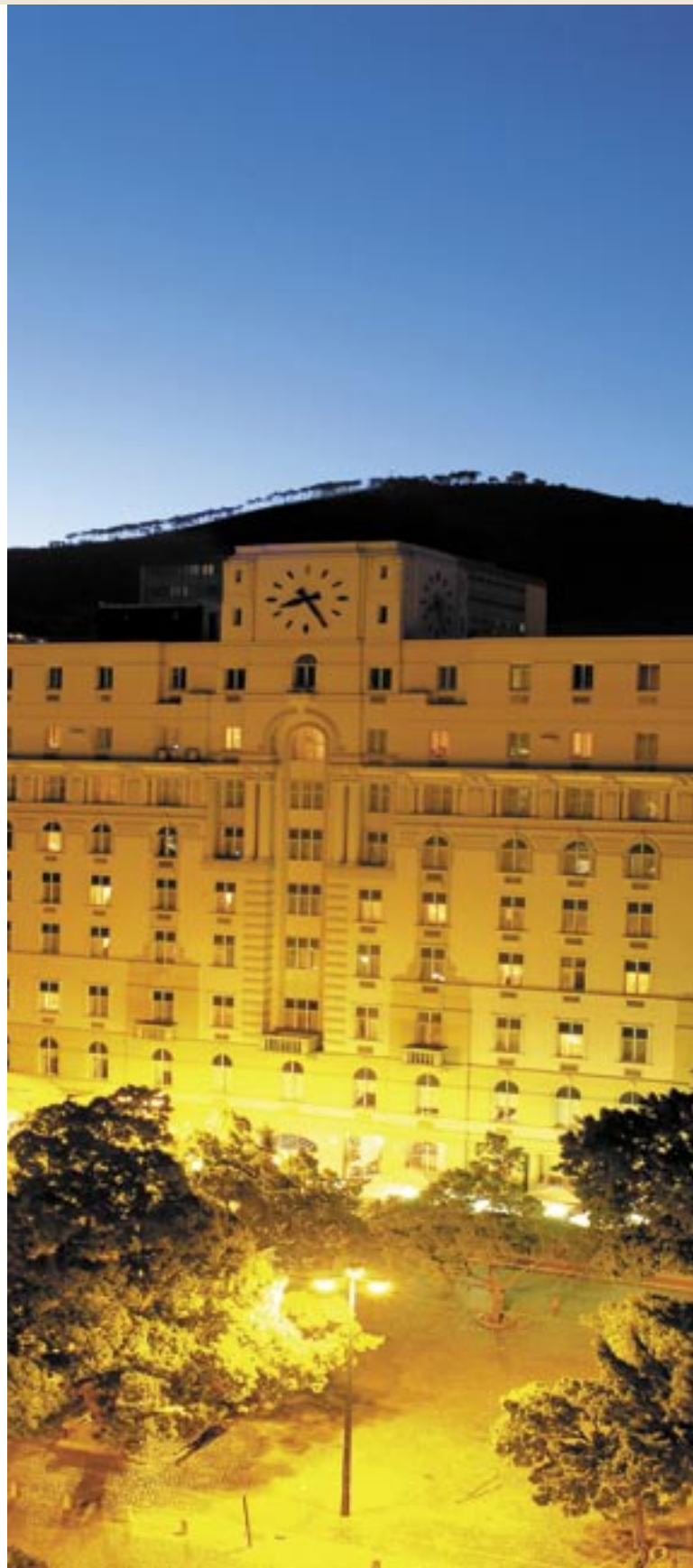
+38%

TOTAL RETURN
on A-linked unit



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140,40c

DISTRIBUTION
per B-linked unit (cents)

+ 17,9%

DISTRIBUTION
per B-linked unit (cents)

+ 116%

TOTAL RETURN
on B-linked unit

PROFILE

Hospitality Property Fund ('Hospitality' or 'the Fund') is a property loan stock company, which invests in properties in the hotel and leisure industries. The Fund is a publicly traded company and was listed on the main board of the JSE Limited ('JSE') under the Financials – Real Estate sector in February 2006.

The Fund was established with the aim of offering unitholders an investment vehicle with exposure to the hospitality sector through the ownership of hotel and leisure properties. Both the property and hotel and leisure sectors have recorded sustained growth of late and the prospects for these sectors continue to be positive.

The Fund consists of investments in 21 hotel and resort properties in South Africa, and is highly diversified in terms of geographic location, star grading, fixed and variable income and market mix.

The Fund's earnings are distributed in full, as debenture interest, free of tax and linked unitholders consequently are subject to tax according to their individual tax status.

The Fund comprises a total of 45,7 million A-linked units and 45,7 million B-linked units, which are traded on the JSE under the HPA and HPB codes respectively. The A-linked units have a preferential claim to earnings with capped growth. The B-linked units receive the balance of the earnings. As at 30 June 2007 the properties were independently valued at R1,7 billion. The Fund has a BEE ownership component of some 30,4%.

Key features (financial year ending June 2007)	A-linked unit	B-linked unit
Distribution (cents per unit)	100,46	140,40
Distribution relative to forecast*	Per forecast	+17,9%
Total return	38%	116%
Listed market price at year end (cents per unit)	1 421	2 060
Net asset value at year end (cents per unit)	1 334	1 334
Premium to net asset value	7%	54%

*Forecast published in listing prospectus forecast dated 23 January 2006.

“THE OUTPERFORMANCE OF INITIAL FORECASTS WAS PREDOMINANTLY ATTRIBUTABLE TO INCREASED RENTAL INCOME. THIS HAS BEEN DUE TO ROBUST TRADING CONDITIONS IN THE HOTEL INDUSTRY, THE IMPLEMENTATION OF EFFECTIVE ASSET AND HOTEL MANAGEMENT STRUCTURES, AND THROUGH THE ACQUISITION OF SEVERAL YIELD-ENHANCING PROPERTIES.”

FUND MANAGERS’ REPORT

HIGHLIGHTS

The results achieved during this first full year trading period have significantly exceeded expectations. The A-linked unit distributions were in line with the listing prospectus forecast, while the distribution per B-linked unit exceeded forecast by 17,9%. This outperformance of initial forecasts was predominantly attributable to increased rental income. This has been due to robust trading conditions in the hotel industry through lease structures that are linked to underlying performance of hotel properties, implementation of effective asset and hotel management structures, and through the acquisition of several yield-enhancing properties.

During this financial year the Fund substantially increased its BEE ownership credentials, with some 30,4% of units in issue currently held by BEE entities. Following an independent revaluation and several acquisitions, the Fund’s portfolio value increased from R1,2 billion to R1,7 billion.

INTRODUCTION

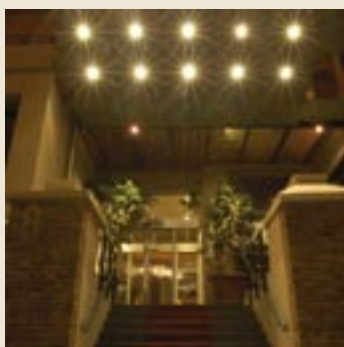
Since the listing of Hospitality on the JSE in February 2006, the Fund has posted results in excess of listing expectations and the listed units have appreciated substantially in the past

16 months. As the first listed property fund to invest solely in the hospitality and leisure sectors, the Fund provides investors with exposure to the growth potential of both the hospitality and property industries.

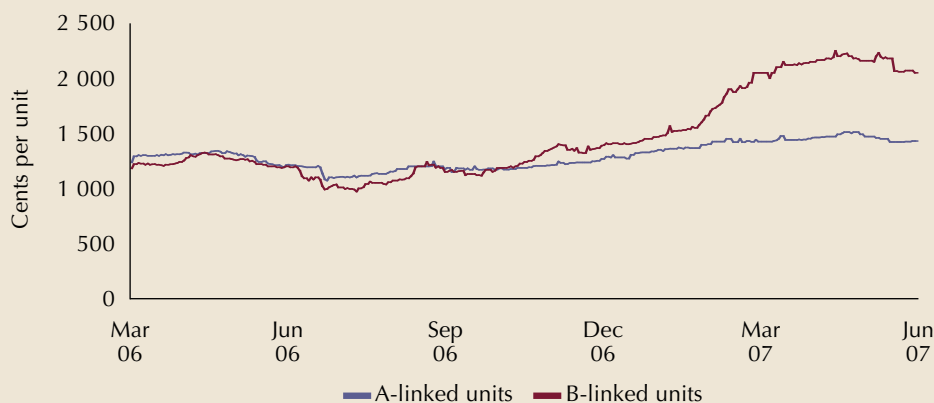
The Fund has an equal number of A- and B-linked units in issue, with A-linked units having a preferential claim to distributions, whilst the B-linked units receive the balance. The linked units are listed on the JSE under the Financials – Real Estate sector under the codes HPA and HPB respectively.

The private placement of the Fund’s linked units in early 2006 was more than eight times oversubscribed and the appreciation of the unit prices has been substantial since listing. At year end, the A-linked units were trading at a 42% premium to the listing price while the B-linked units’ premium amounted to 106%. The growth in capital value in the A-linked unit has been in line with the listed property sector as a whole while the B-linked unit has seen growth significantly in excess of the sector.

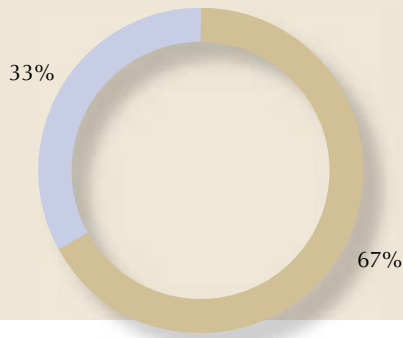
During the course of the year ending June 2007 the Fund consummated a substantial BEE transaction which was facilitated by the placement of shares linked to the acquisition of four additional properties. Hospitality’s BEE partners,



HOSPITALITY UNIT PRICE PERFORMANCE

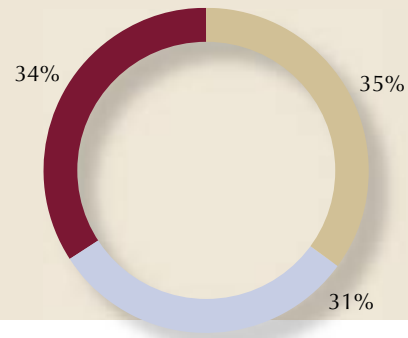


PATRONAGE BY SOURCE MARKET



- Domestic
- Foreign

PATRONAGE BY MARKET SEGMENT



- Corporate
- Conference
- Leisure

namely: Nobuntu and Nobuntu II, together with the National Empowerment Fund owned an aggregate 30,4% of units in issue at year end. This currently exceeds the ownership target of 25% as set out in the Property Sector Transformation Charter.

The Fund is managed by Hospitality Property Fund Managers (Pty) Ltd ('the Fund Managers') which has a dedicated executive management team with a wealth of experience in the hospitality and property sectors.

REVIEW OF TRADING CLIMATE

Economic and financial overview

Economic growth in South Africa continued during the reporting period, with real GDP growth in 2006 reported at 5,0%, which was slightly down from the 5,1% achieved in 2005. The first quarter of 2007 showed a further annualised growth of 4,7%. The general economic outlook continues to be positive, with GDP growth forecasts for 2007 and 2008 being at a similar level to that which was achieved in the first quarter of 2007. In addition strong growth in GDP is expected

over the next few years propelled by the infrastructure spending boom.

Global economic expansion, geopolitical tensions and constraints on supply caused crude oil prices to increase over the reporting period. The higher cost of fuel, higher domestic spending and an increase in credit demand led to continued domestic inflationary pressures.

During the reporting period, the South African Reserve Bank continued to use interest rates as a tool to attempt to curb inflation. In April 2007 CPIX inflation reached 6,3%, breaching the Bank's target range ceiling of 6%. During the reporting period interest rates increased by 150 basis points, with a further 50 basis points increase post the year end. Recent inflation figures suggest that the upward trend in rates may not be over, which is likely to continue to put listed property prices under pressure. In addition, the recent volatility and sell-off in local equity markets since mid-July due to subprime loan concerns, has affected local markets but the effect on SA's listed property sector has been smaller than for general equities.

"DURING THIS FINANCIAL YEAR THE FUND SUBSTANTIALLY INCREASED ITS BEE OWNERSHIP CREDENTIALS, WITH SOME 30,4% OF UNITS IN ISSUE CURRENTLY HELD BY BEE ENTITIES."



FUND MANAGERS' REPORT CONTINUED

Hospitality sector overview

The Fund has a very diverse patronage base, with approximately two thirds of room nights sold within the property portfolio being to domestic guests and the remainder sold to foreign guests. In terms of target market, there is a relatively even mix between corporate, conference and leisure guests.

Global tourism continued its growth in 2006, with international tourist arrivals increasing by 4,9%, according to the World Tourism Organisation, which was down slightly from a 5,4% growth in 2005. Tourism receipts increased by some 8,5% in 2006, compared to 7,0% in 2005. The latest available year to date global tourism data (to April 2007) shows an increase in arrivals of 6,3% over the same period in 2006. Growth in global tourist arrivals in 2007 is likely to be at least in line with that which was achieved in 2006.

Foreign tourist arrivals in South Africa in 2006 increased by 14%, which was almost three times as high as the global average. The growth in foreign arrivals was mainly as a result of arrivals from mainland Africa (+17%), in particular from neighbouring countries. The arrivals of overseas tourists increased by 7,2%, which compares favourably to a growth rate of 2,9% in 2005. The most recent figures from South African Tourism show a growth of 4,2% in overseas arrivals for the year to date June 2007.

The domestic corporate, conferencing and leisure tourism segments continue to provide hotels in South Africa with the majority of their room nights and these segments performed strongly during the reporting period. Demand in these segments is likely to continue to grow at least in line with economic growth.

The domestic corporate tourism segment is the backbone of the tourism industry in South Africa and is likely to continue

to show steady growth in the coming years. The growth in the domestic leisure tourism segment has been fuelled by the strong underlying economy and the presence of a generally upwardly mobile society with increasing disposable income. In the past year it has become increasingly evident that certain demographic market segments which could previously not afford to participate in this leisure tourism segment are increasingly visiting hotels. We believe that this should provide significant growth in the years to come.

The conference market is particularly strong in South Africa, with the public and private sectors providing a significant number of room nights associated with conferences, workshops, meetings and seminars. Room nights sold in the domestic conference market segment are expected to grow in line with economic growth. The growth in international conference tourism is likely to be in excess of overall foreign tourism growth as a result of the development of suitable convention facilities and the continued marketing of South Africa as an international conference and convention destination.

The continued growth in demand in the hospitality sector has been paired with a limited number of new hotel developments in the past several years, which has caused a constraint on current supply. Building costs have escalated substantially and new hotel products are likely to require higher room rates to provide suitable returns on investment. Despite the higher building costs, we expect a reasonable increase in supply in the lead up to the FIFA World Cup 2010.

The Deloitte HotelBenchmark study reported a growth in revenue per available room (RevPAR) of some 15% for the calendar year ending 2006 and the period to June 2007 has shown an increase of 18% over the same period last year.



“ECONOMIC AND BUSINESS CONDITIONS ON BALANCE REMAIN FAVOURABLE AND THE ROBUST TRADING CONDITIONS FOR THE HOTEL INDUSTRY LOOK SET TO CONTINUE, PARTICULARLY IN THE LEAD UP TO 2010.”



Growth

“GROWTH IN DEMAND IN THE HOSPITALITY SECTOR HAS BEEN PAIRED WITH A LIMITED NUMBER OF NEW HOTEL DEVELOPMENTS IN THE PAST SEVERAL YEARS, WHICH HAS CAUSED A CONSTRAINT ON CURRENT SUPPLY.”



Returns

“THE TOTAL RETURNS IN THE LISTED PROPERTY SECTOR CONTINUED TO BE EXCEPTIONALLY HIGH DURING THE REPORTING PERIOD DESPITE THE FACT THAT THE SECTOR REMAINED UNDER PRESSURE DUE TO RISING INTEREST RATES.”

FUND MANAGERS' REPORT CONTINUED

These increases are far in excess of inflation and we expect significant growth in RevPAR to continue in the medium term.

Potential constraints in the growth in foreign tourist arrivals in South Africa include possible global and regional escalations in geopolitical tensions, further increases in oil prices, continued perceived high levels of crime in South Africa and increased competition from other long-haul destinations. Domestically, potential growth constraints include a moderation in economic growth, and further increases in interest rates.

Because of the diverse base of the Fund's patronage, in terms of both source market and market segments, the Fund is well placed to manage fluctuations in the operating environment. The Fund Managers have a team of dedicated analysts which continually monitor global and domestic trading climates.

Listed property sector overview

The total returns in the listed property sector continued to be exceptionally high during the reporting period despite the fact that the sector remained under pressure due to rising interest rates. By the end of the reporting period, the distribution yield for the listed property sector (6,27%) had fallen further below the long bond yield (8,49%), indicating significant distribution growth expectations.

The continued escalation of building costs and limited new development opportunities have resulted in constraints in the supply of new space. This has resulted in a drop in vacancy levels, with the average for the listed property sector falling below 4% in the second quarter of 2007, placing upward pressure on rentals underpinned by rental income and strong property fundamentals. Listed property has once

again proved its defensive qualities. In the face of the recent contagion from global subprime loan fears, listed property returns have been better and volatility lower than the general equity market, having lost only 5% between mid-July to mid-August, compared to the overall market's 13%. Over the past 12 months, the listed property sector has gained 38%, outperforming the market's gain of 32%.

Results

Distribution per A-linked unit for the 12-month period ending June 2007 amounted to 100,46 cents, in line with the prospectus forecast, which equates to an annualised historical yield of 7,1% on the trading price as at year end. The distribution per B-linked unit amounted to 140,40 cents, which was some 17,9% above the prospectus forecast, equating to an annualised historical yield of 6,8%.

Approximately 28% of the Fund's earnings are derived from lease income that is linked to the underlying operational performance of hotel properties.

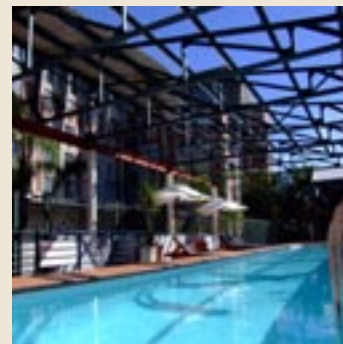
The growth in distributions when compared to the listing prospectus were predominantly attributable to this income component having benefited from recent trading conditions in the hotel industry as well as the implementation of effective asset and hotel management structures. The acquisition of various earnings enhancing properties during the period contributed further to the growth in distributions.

Property portfolio

The Fund's property portfolio consisted of 21 hotel and resort properties in South Africa at year end. The properties can be categorised into three lease segments, namely; fixed lease properties, C-Corp lease properties and variable lease properties.

ACTUAL PERFORMANCE COMPARED TO FORECAST SET OUT IN LISTING PROSPECTUS

Year end June 2007	Actual (R'000)	Prospectus forecast (R'000)	Variance %
Contractual rental income	138 556	116 829	18,6
Fund expenses	(18 921)	(13 776)	(37,3)
Finance costs	(24 206)	(23 617)	(2,5)
Profit before debenture interest	95 429	79 436	20,1
Debenture interest	(95 429)	(79 436)	20,1
Distribution – A-linked units	(39 784)	(36 342)	9,5
Distribution – B-linked units	(55 645)	(43 094)	29,1
Distribution – A-linked unit (cents)	100,46	100,46	0,0
Distribution – B-linked unit (cents)	140,40	119,13	17,9



FUND MANAGERS' REPORT CONTINUED

The fixed lease segment includes interests in six properties, which accounted for 58% of total rental income for the reporting period. These properties comprise the Birchwood Executive Hotel and Conference Centre, Champagne Sports Resort, Kopanong Hotel and Conference Centre, Park Inn Greenmarket Square, Premier Hotel King David, and the Radisson Hotel Waterfront. Rentals under fixed lease agreements are determined by contractual lease terms with inflation-linked escalations. The lease on the Birchwood Executive Hotel and Conference Centre further includes a turnover rental component.

There are a total of 10 C-Corp lease properties, which contributed 34% of total rental income for the reporting period. The C-Corp lease properties are: The Bayshore Inn, The Imperial Hotel, Mount Grace Country House and Spa, Protea Hotel Marine, Protea Hotel Richards Bay, Protea Hotel Victoria Junction, The Hazyview Hotel, The Richards Hotel, The Rosebank Hotel and The Winkler Hotel. C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being a variable lease rental equivalent to 90% of the hotel's EBITDA ('earnings before interest, tax, depreciation and amortisation') after the payment of the fixed portion of the lease. In effect the rent transferred to the Fund is equivalent to approximately 95% of the hotel's EBITDA.

The variables lease category comprises interests in five Courtyard Hotels, situated in Arcadia, Cape Town, Eastgate, Rosebank and Sandton. City Lodge Hotels Limited is both tenant and manager for these hotels and income derived from the properties is based directly on EBITDA. For the reporting period, these properties contributed 8% to total rental income.

The average daily room rate achieved for the portfolio during the period was R627 at a room occupancy rate of 67%, which equates to a revenue per available room (RevPAR) of R421.

Property valuation and net asset value

As at year end the Fund's property portfolio was valued at R1,7 billion, which represents an increase of 17% when compared to the book value. This valuation takes into account the acquisition of five properties, with a total value of R245 million.

The property value at 30 June 2006 was R1,2 billion; the Fund's property base thus increased by some R0,5 billion, or 42% over the past 12 months.

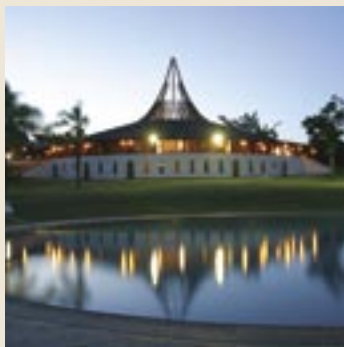
The net asset value (NAV) per linked unit as at 30 June 2007 was 1 334 cents per linked unit, which equates to an increase of 17% per linked unit from June 2006.

At year end, the combined units were trading at a 30% premium to NAV. This compares to an aggregate 41% premium to NAV for the listed property sector at the same date.

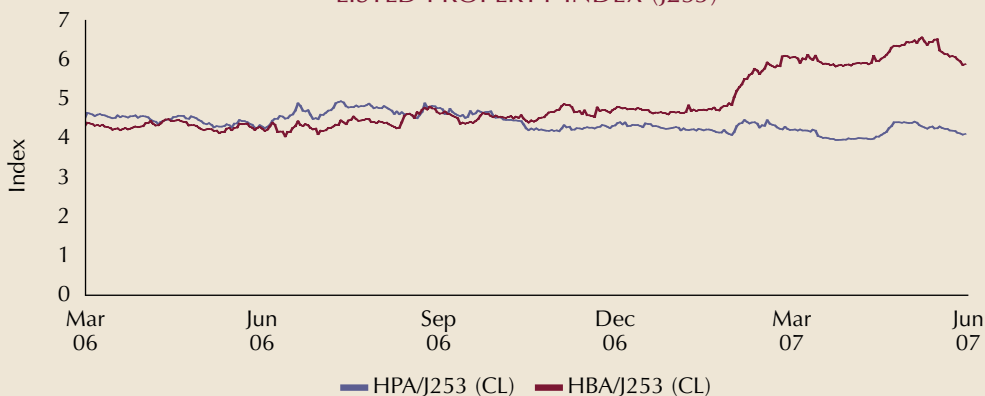
Acquisitions

During the reporting period the Fund acquired five hotel properties, namely: Protea Hotel Victoria Junction (Cape Town), The Richards Hotel and The Bayshore Inn (Richards Bay). The Hazyview Hotel (Hazyview) and The Imperial Hotel (Pietermaritzburg), for a combined acquisition consideration of R245 million. These properties all fall under the Fund's C-Corp lease structure.

As announced to unitholders on 30 July 2007, the Fund has entered into agreements to acquire the Hluhluwe Hotel and



LINKED UNITS PERFORMANCE RELATIVE TO LISTED PROPERTY INDEX (J253)



Safaris (Hluhluwe, KwaZulu-Natal) under the C-Corp lease structure, as well as further exposure to certain properties in which the Fund is already invested, comprising the remaining 32% shareholding in the Park Inn Greenmarket Square, the remaining 35% shareholding in 90 units at the Radisson Hotel Waterfront and an extension to the Birchwood Executive Hotel and Conference Centre (all fixed leases). These properties are to be acquired for a total consideration of R195 million and were independently valued at R238 million, representing a 23% surplus to acquisition price. These acquisitions are likely to become effective between August and November 2007.

Refurbishments, upgrades and expansions

Various refurbishment and expansion projects within the Fund's existing portfolio are under review. The Rosebank Hotel is currently undergoing a R254 million redevelopment, which is expected to be completed by May 2008. This major project commenced in July 2007 and although this has necessitated the closure of the hotel for a nine-month period, the Fund's earnings are unlikely to be impaired as the rental income has been factored into the cost of the redevelopment and will continue to be received by the Fund from Hospitality Hotel Developments (Pty) Ltd (Devco). Devco is a development company which has been established to redevelop The Rosebank Hotel on a turnkey basis for the Fund. This is in order to comply with the necessary accounting and statutory requirements to permit the ongoing payment of rental to the Fund. The fee that Devco is paid to act in this capacity is equivalent to the fee that Hospitality Property Fund Managers (Pty) Ltd (Hospitality Manco) would be entitled

to receive (in terms of the asset management agreement between Hospitality Manco and the Fund) in respect of the development and which Hospitality Manco has elected to forfeit to ensure that the Fund does not incur any additional costs through this structure.

The shareholders of Devco are Grapnel Property Asset Managers (Pty) Ltd (Grapnel) (50%) and Hotel Tourism and Leisure Asset Management (Pty) Ltd (HTLAM) (50%).

Expansion opportunities at the Champagne Sports Resort, the Mount Grace Country House and Spa, and The Imperial Hotel are further under review, while refurbishment and/or repositioning projects are under review for The Winkler Hotel, The Richards Hotel, The Bayshore Inn and the Protea Hotel, Richards Bay. Should the development projects prove to be viable, they are likely to be completed during the course of the coming two financial years. The development projects will position the portfolio to take advantage of the favourable trading conditions in the hotel industry anticipated to continue over the next few years, particularly in the lead up to 2010. The estimated total potential investment in these capital projects is approximately R500 million and the financial criterion which has been set is for the expenditure on aggregate to be at least earnings neutral.

Investment strategy

The Fund's investment strategy is to sustainably grow its property base through acquisitions and developments which enhance unitholders' returns. The aim is further to maintain the portfolio's diversity in terms of geographic location, lease type, patronage and star grading.

“DURING THE REPORTING PERIOD THE FUND
COMPLETED AND ANNOUNCED THE ACQUISITION
OF INTERESTS IN NINE PROPERTIES, VALUED AT
R519 MILLION.”



FUND MANAGERS' REPORT CONTINUED

Funding

In order to fund the various acquisitions and capital projects, the Fund is looking to undertake a rights offer for R500 million, the details of which have been announced. The rights issue is expected to be completed by October 2007.

The Fund's weighted average cost of debt for the reporting period was 9,1% and the effective gearing level was 18,3% of asset value at year end. An interest rate swap is in place in respect of interest bearing liabilities of R253 million at an all in rate of 8,83% per annum, expiring in February 2009. At 30 June 2007 the Fund had an unutilised debt facility of R192 million. The facility has subsequently been increased to R335 million.

Units in issue

As at year end 91 375 470 linked units were in issue, comprising an equal number of A- and B-linked units. During the course of this reporting period an additional 19 026 024 linked units were issued to fund various acquisitions and to expand the Fund's BEE ownership component.

Liquidity

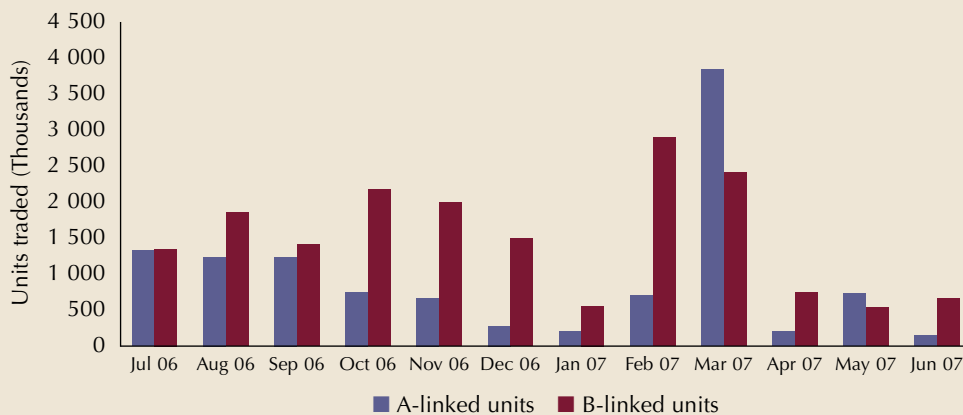
38% of the Fund's total units in issue were traded during the 12-month period ending June 2007. Some 29% of the A-linked units and 47% of the B-linked units were traded during the period.

Prospects

According to the latest Deloitte HotelBenchmark report, trading conditions within the hotel industry remain buoyant with the revenue per available room (RevPAR) across South Africa having grown 17,8% for the first six months of this year. This was largely driven by improvements in average room rates which grew by 15,3% compared to the same period last year, and to a lesser extent by increases in occupancies which have seen a growth of 2,2% so far this year. Economic and business conditions on balance remain favourable and the robust trading conditions for the hotel industry look set to continue, particularly in the lead up to 2010. While the Fund has a relatively small exposure of around 28% of its earnings from underlying operational income, it should nonetheless benefit from this positive environment.



LIQUIDITY



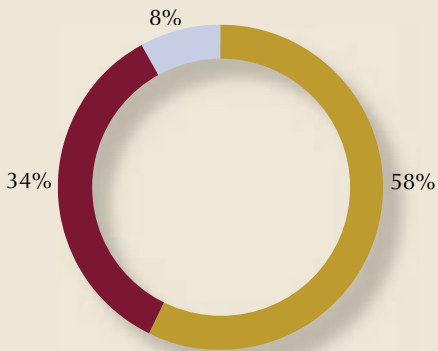


Portfolia

“THE ESTIMATED TOTAL POTENTIAL INVESTMENT
IN CAPITAL PROJECTS IS R500 MILLION,
WHICH ARE PROJECTED TO BE AT LEAST YIELD
ENHANCING.”

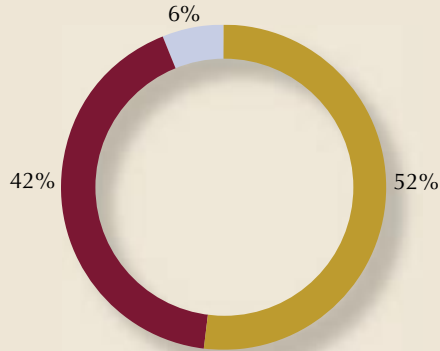
SALIENT FEATURES

GROSS RENTAL INCOME BY LEASE TYPE



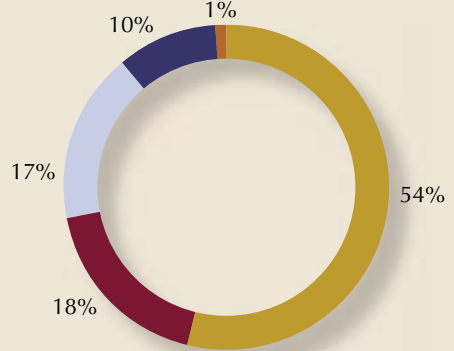
- Fixed
- C-Corp
- Variable

PROPERTY VALUE BY LEASE TYPE



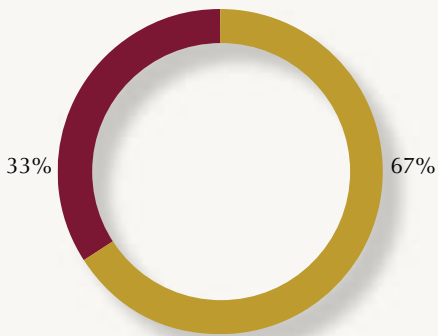
- Fixed
- C-Corp
- Variable

GROSS RENTAL INCOME BY LOCALITY



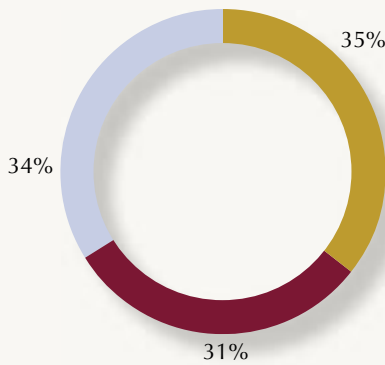
- Gauteng
- KwaZulu-Natal
- Western Cape
- Eastern Cape
- Mpumalanga

PATRONAGE BY SOURCE MARKET



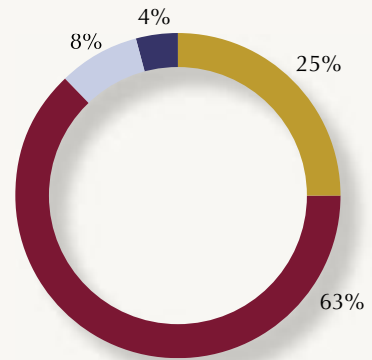
- Domestic
- Foreign

PATRONAGE BY MARKET SEGMENT



- Corporate
- Conference
- Leisure

LEASE AGEING PROFILE BY RENTAL INCOME



- 1 - 5
- 6 - 10
- 11 - 15
- 16 - 20

GROUP STRUCTURE



HPF Properties (Pty) Ltd

FUND MANAGER
Hospitality Property Fund Managers (Pty) Ltd

C-CORP LEASES

VARIABLE LEASES

TENANT

PROPERTY

C-Corp (Majomatic 194 (Pty) Ltd)

PROPERTY

MANAGEMENT COMPANY

- MOUNT GRACE COUNTRY HOUSE & SPA
- ROSEBANK HOTEL
- THE WINKLER HOTEL
- THE RICHARDS HOTEL
- THE HAZYVIEW HOTEL
- THE IMPERIAL HOTEL
- THE BAYSHORE HOTEL
- PROTEA HOTEL HARARE
- PROTEA HOTEL VICTORIA JUNCTION
- PROTEA HOTEL RICHARD BAY

Africa's Largest & Leading Hotel Group

- Rosebank**
(32,2% owned)
- Sandton**
(25,8% owned)
- Eastgate**
(50,0% owned)
- Arcadia**
(50,0% owned)
- Cape Town**
(50,0% owned)

BLE
ES

FIXED
LEASES

MANAGEMENT COMPANY/
TENANT

PROPERTY

TENANT



The Birchwood
Management Company
(Pty) Ltd



Champagne Sports
Resort (Pty) Ltd



(80% owned)

Kopanong Hotel &
Conference Centre
(Pty) Ltd



Greenmarket Square
(68% owned)

Dieter Martin Properties
(Pty) Ltd



Windsharp Trading 33
(Pty) Ltd



Waterfront
(65% of 90 units owned)

Conference Centre
Properties (Pty) Ltd



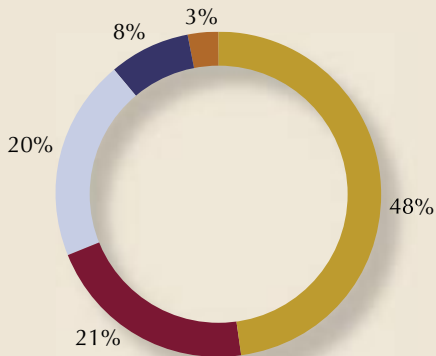
City Lodge Hotels
Limited

DETAILS OF PROPERTY PORTFOLIO

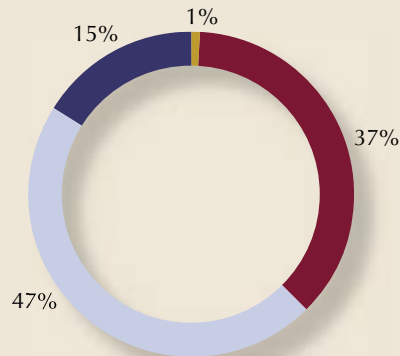
Property Name	Property Title	HPF Ownership
Birchwood Executive Hotel and Conference Centre	Freehold	Direct
Champagne Sports Resort	Freehold	Combined share block and direct
Courtyard Arcadia	Freehold	A 50% interest in the shareblock-owning company
Courtyard Cape Town	Leasehold	A 50% interest in the shareblock-owning company
Courtyard Eastgate	Freehold	A 50% interest in the shareblock-owning company
Courtyard Rosebank	Freehold	A 32% interest in the shareblock-owning company
Courtyard Sandton	Freehold	A 26% interest in the shareblock-owning company
Kopanong Hotel and Conference Centre	Freehold	68 sectional title units (80% units in the scheme)
Mount Grace Country House and Spa	Freehold	Direct
Park Inn Greenmarket Square	Freehold	A direct 68% undivided share
Premier Hotel King David	Freehold	Direct
Protea Hotel Marine Port Elizabeth	Freehold	Direct
Protea Hotel Richards Bay	Freehold	Direct
Protea Hotel Victoria Junction	Freehold	147 sectional title units (84% units in the scheme)
Radisson Hotel Waterfront	Freehold	A 65% undivided share in 90 sectional title units
The Bayshore Inn	Freehold	Direct
The Hazyview Hotel	Freehold	Direct
The Imperial Hotel	Freehold	Direct
The Richards Hotel	Freehold	Direct
The Rosebank Hotel	Freehold	Direct
The Winkler Hotel	Freehold	Direct
Total		

Property Location	Star Grading	Number Of Rooms	Agreement Type	Book Value (30 June 2006) R'000	Value Attributed By Valuer (30 June 2007) R'000
Boksburg, Gauteng	3	330	Fixed lease	301 256	347 000
Central Berg, KwaZulu-Natal	4	112	Fixed lease	144 800	170 000
Arcadia, Pretoria, Gauteng	4	69	Variable lease	21 750	28 000
Mowbray, Cape Town, Western Cape	4	70	Variable lease	7 000	8 500
Bruma Lake, Johannesburg, Gauteng	4	69	Variable lease	14 175	26 000
Rosebank, Johannesburg, Gauteng	4	83	Variable lease	16 300	21 800
Sandton, Gauteng	4	69	Variable lease	10 844	18 900
Benoni, Gauteng	4	252	Fixed lease	91 404	97 000
Magaliesburg, Gauteng	5	81	C-Corp lease	137 630	139 000
Cape Town CBD, Western Cape	3	165	Fixed lease	55 000	64 000
East London, Eastern Cape	3	80	Fixed lease	52 000	57 000
Port Elizabeth, Eastern Cape	4	98	C-Corp lease	74 266	77 000
Richards Bay, KwaZulu-Natal	3	66	C-Corp lease	40 483	45 000
Waterfront, Cape Town, Western Cape	4	172	C-Corp lease	108 876	123 000
Waterfront, Cape Town, Western Cape	5	182	Fixed lease	98 022	130 000
Richards Bay, KwaZulu-Natal	2	102	C-Corp lease	12 700	23 500
Hazyview, Mpumalanga	3	87	C-Corp lease	41 104	46 500
Pietermaritzburg, KwaZulu-Natal	3	70	C-Corp lease	24 949	36 000
Richards Bay, KwaZulu-Natal	4	135	C-Corp lease	63 430	70 300
Rosebank, Johannesburg, Gauteng	4	318	C-Corp lease	102 168	129 000
White River, Mpumalanga	3	87	C-Corp lease	12 285	10 800
		2 697		1 430 442	1 668 300

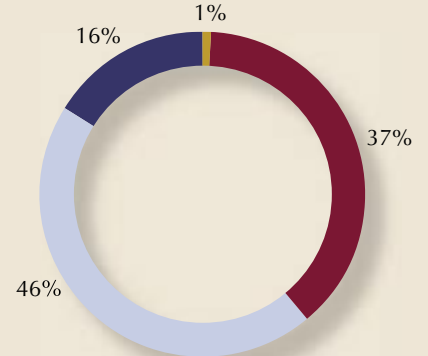
PROPERTY VALUE BY LOCALITY



GROSS RENTAL INCOME BY STAR GRADING



PROPERTY VALUE BY STAR GRADING

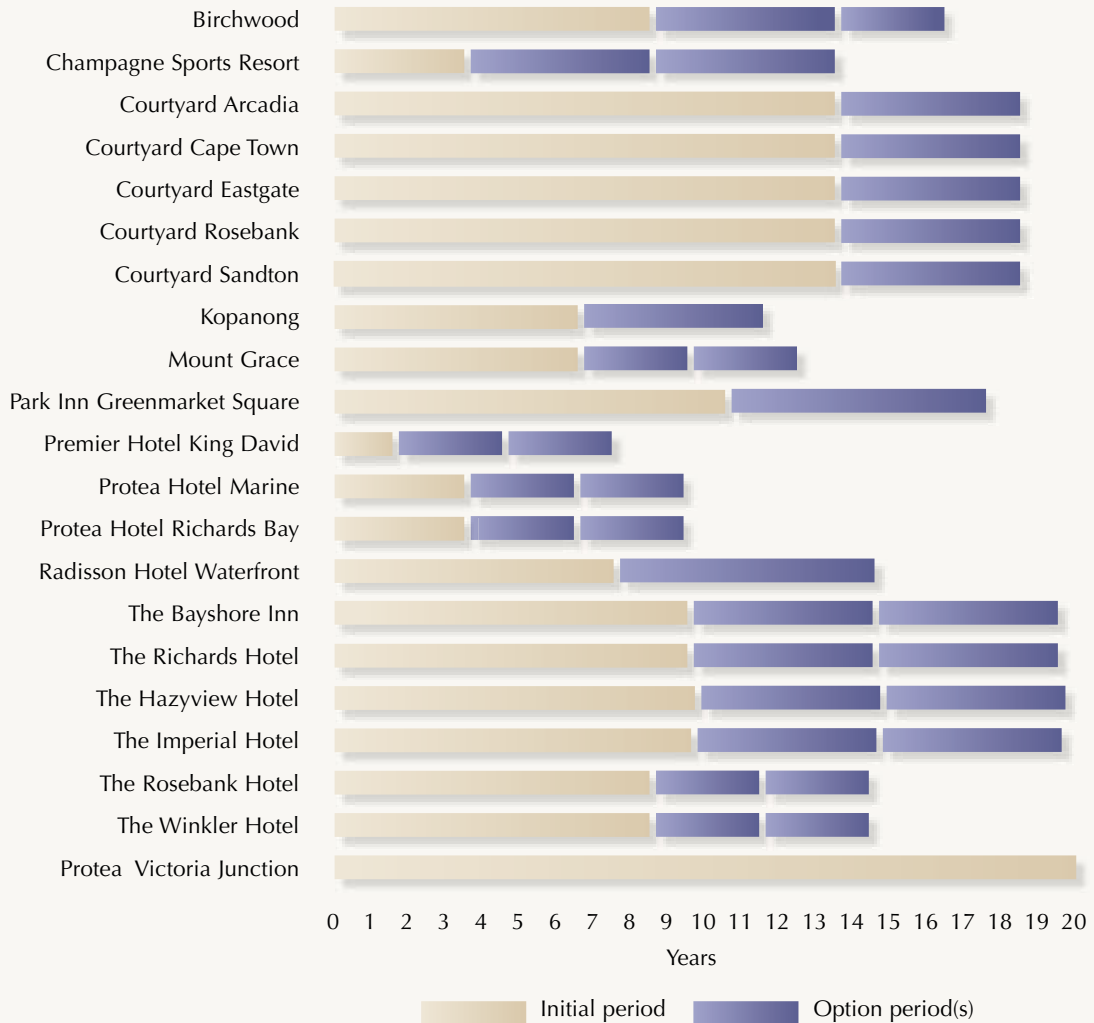


- Gauteng
- KwaZulu-Natal
- Western Cape
- Eastern Cape
- Mpumalanga

- 2-STAR
- 3-STAR
- 4-STAR
- 5-STAR

- 2-STAR
- 3-STAR
- 4-STAR
- 5-STAR

LEASE EXPIRY PROFILE FOR THE PORTFOLIO



DIRECTORATE

1



2



3



4



5



6



7



8



- 1 **TIM SEWELL**
- 2 **GERALD NELSON**
- 3 **YOUSEPH AMINZADEH**
- 4 **KAMIL ABDUL-KARRIM**
- 5 **RIDWAAN ASMAL**
- 6 **BRENDA MADUMISE**
- 7 **ANDREW ROGERS**
- 8 **WILLY ROSS**

CORPORATE GOVERNANCE

INTRODUCTION

The Board of Hospitality is committed to the promotion of good corporate governance as set out in the King II report on Corporate Governance in South Africa ('King II') and will continue to maintain and where necessary implement meaningful procedures and policies to continue the business of the Fund with transparency and integrity in the best interests of all its stakeholders. The following are amongst the steps taken by the directors of Hospitality to express their commitment to the achievement and maintenance of good corporate governance.

BOARD OF DIRECTORS

Hospitality subscribes to a unitary board which at year end consisted of nine members, five of whom were independent non-executive directors and four of whom were executive directors. The size of the board is such that it ensures a wide range of skills, knowledge, views and experience to achieve the balance necessary to meet its strategic objectives.

The position of the Chief Executive Officer is separate from that of the Chairman (who is an independent non-executive director), in order to ensure balance of power and authority, such that no one individual has unfettered powers of decision-making.

Separation exists between executive and non-executive directors and their responsibilities. Day-to-day management of the business vests with Hospitality's executive team. The board provides strategic direction to the Fund and monitors management's implementation of strategies and objectives.

Board meetings are held at least quarterly and additional meetings are convened when circumstances necessitate. Formal agendas and board reports are prepared for all board meetings to

ensure that matters that require the board's attention are properly addressed. Directors are given the opportunity annually to generally declare their interests and, where applicable, directors declare their interests in contracts at the quarterly meetings.

CHANGES TO THE BOARD AND SUB-COMMITTEES

During the financial year under review, the following changes were made to the composition of the board and its sub-committees:

- (i) On 31 October 2006, Mr Bruce Hutchison resigned for personal health reasons as an executive director and Chief Executive Officer of Hospitality. With effect from 1 November 2006, Messrs Gerald Nelson and Yuseph Aminzadeh, both of whom were non-executive directors of the board at the time and who had been closely involved with the formation of the Fund, took up the roles of Chief Executive Officer and Deputy Chief Executive Officer, respectively;
- (ii) On 1 February 2007, Mr Andrew Rogers was appointed an executive director and Chief Operating Officer of Hospitality. Andrew has over 17 years' operational experience in the tourism and hospitality industry and was a director of operations at Southern Sun prior to joining the Fund. Andrew has also been associated, amongst others with the City Lodge and Cullinan Hotel Group;
- (iii) On 10 April 2007, Mr Willy Ross was appointed an independent non-executive director to the board. Mr Ross has extensive commercial, banking and governance experience. After more than 30 years' service, Mr Ross retired from the Nedbank Group in 2004. He currently serves on the boards of a number of listed and unlisted companies.

BOARD OF DIRECTORS (as at 30 June 2007)

Independent non-executive directors

T E Sewell (Chairman)
K H Abdul-Karrim
M S Hoosen
B M Madumise
W C Ross

Non-independent executive directors

G A Nelson (Chief Executive Officer)
Y Aminzadeh (Deputy Chief Executive Officer)
R Asmal (Chief Financial Officer)
A S Rogers (Chief Operating Officer)

Audit committee

M S Hoosen (Chairman)
T E Sewell
W C Ross

BEE committee

B M Madumise (Chairman)
M S Hoosen
G A Nelson

Investment committee

Y Aminzadeh (Chairman)
K H Abdul-Karrim
G A Nelson
M S Hoosen

CORPORATE GOVERNANCE CONTINUED

Further to Mr Ross' appointment and in order for Hospitality's board to comprise, in line with its articles of association and King II, a majority of independent non-executive directors, Mr Justin Bass resigned as an executive director from the board. Mr Bass continues, however, to be at the forefront of Hospitality's development and refurbishment projects.

- (iv) On 16 August 2007, subsequent to year end, Mr M S Hoosen resigned as an independent non-executive director.
- (v) On 29 August 2007:
 - (i) Mr Ross was appointed Chairman of the audit committee; and
 - (ii) Mr Abdul-Karrim replaced Mr Aminzadeh as Chairman of the investment committee.

In anticipation of the coming into effect of the Corporate Law Amendment Act, section 269A which obliges that Hospitality's audit committee consists of at least two members, all of whom shall be non-executive directors of the company who must act independently, the following changes to the composition of the audit committee were approved by the board with effect 17 May 2007:

- (i) the appointment of Mr Willy Ross as a committee member; and
- (ii) the resignation of Ms Brigitte de Bruyn and Mr Ridwaan Asmal as committee members, both of whom shall continue to attend meetings by invitation.

MEMBERSHIP OF, AND APPOINTMENTS TO, THE BOARD

In accordance with the articles of association of the Fund, one third of the non-executive directors shall retire from office

at every annual general meeting. Retiring directors shall be eligible for re-election, except at the annual general meeting following the date on which a director turns 70 years old, at which annual general meeting he/she shall automatically retire and not be entitled to offer himself/herself for re-election.

New board appointments are dealt with in a formal and transparent manner by the board as a whole. Nominations are submitted by board members through the chairman to the full board for consideration.

Board members should have the ability to make informed decisions. Directors are appointed to the board on the basis of their personal integrity, business acumen and experience and are required to make meaningful contributions to the activities of the Fund in the interests of all its stakeholders.

No nomination committee will be established for the purpose of new appointments to the board, unless decided otherwise due to specific circumstances.

All directors have access to the chairman, the executive management team and company secretary. The company secretary updates the board with changes to relevant legislative or regulatory developments and where necessary involves advisers such as the company's sponsor.

Non-executive directors are remunerated at a fee per annum. In view of the responsibilities of the chairman and members of each of the sub-committees beyond their functions as directors, each member of a sub-committee receives remuneration in addition to the annual fee and each chairman receives remuneration in addition to the annual fee and committee fee. These fees are recommended by the audit committee and approved by the board, subject to approval/ratification by the unitholders. Details are set out on the next page.



“THE BOARD OF HOSPITALITY IS COMMITTED TO THE PROMOTION OF GOOD CORPORATE GOVERNANCE AS SET OUT IN THE KING II REPORT ON CORPORATE GOVERNANCE IN SOUTH AFRICA.”

ATTENDANCE AT BOARD AND SUB-COMMITTEE MEETINGS

	Remuneration year ended 30 June 2007 (Rand)	Number of meetings held during period of appointment	Number of meetings attended
Board members			
T E Sewell (Chairman)	125 000	6	6
K H Abdul-Karrim	100 000	6	6
Y Aminzadeh	33 333	6	6
R Asmal	*	6	6
J J P G Bass [•]	50 000	4	4
M S Hoosen [†]	100 000	6	5
B Hutchison [♦]	*	2	1
B M Madumise	100 000	6	6
G A Nelson	33 333	6	6
A S Rogers [#]	*	3	3
W C Ross [■]	25 000	2	2
Audit committee members			
M S Hoosen (Chairman) [†]	30 000	6	6
R Asmal	*	4	4
B de Bruyn	*	4	4
T E Sewell	20 000	6	6
W C Ross	5 000	2	2
BEE committee members			
B M Madumise (Chairman)	9 000	2	2
M S Hoosen [†]	8 000	2	2
G A Nelson	2 667	2	2
Investment committee members			
Y Aminzadeh (Chairman)	6 667	3	3
K H Abdul-Karrim	20 000	3	3
J J P G Bass [•]	10 000	1	1
M S Hoosen [†]	20 000	3	2
G A Nelson	6 667	3	3

*Executive directors do not receive any fees, salaries, bonuses, allowances, or benefits from Hospitality nor does Hospitality make any contributions to funds on their behalf. The executive directors of the Fund are employed and remunerated by Hospitality Property Fund Managers (Proprietary) Limited out of the management fee which it receives from Hospitality.

[•]Resigned 10 April 2007.

[♦]Resigned 31 October 2006.

[■]Appointed 10 April 2007.

[#]Appointed 1 February 2007.

[†]Resigned 16 August 2007.

“THE SIZE OF THE BOARD IS SUCH THAT IT ENSURES A WIDE RANGE OF SKILLS, KNOWLEDGE, VIEWS AND EXPERIENCE TO ACHIEVE THE BALANCE NECESSARY TO MEET ITS STRATEGIC OBJECTIVES.”



DEALING IN THE LINKED UNITS OF HOSPITALITY

In line with best practice and the Security Services Act 36 of 2004, no affected person including any director of the company or employee of the group may deal directly or indirectly in the linked units of the company during restricted periods. These include any price-sensitive period as determined by the board, any period where the linked units are trading under cautionary and the periods between the ends of the interim and annual reporting periods and the announcement of the financial results for such respective periods.

In line with the listings requirements of the JSE Limited, the board has established a procedure to ensure that no director trades in the linked units of the company without the requisite approval of the Chief Executive Officer.

EXTERNAL AUDIT

The external auditors of Hospitality are KPMG Inc. Their independence is recognised and reviewed by the audit committee on an annual basis.

The external auditors have unrestricted access to the audit committee and its chairman.

SUB-COMMITTEES

The board has established a number of committees to give detailed attention to certain of its duties and to assist in the execution of its powers and authorities. Minutes are taken of all sub-committee meetings and are noted at the following board meeting. The chairman of each of these committees reports to the board on its activities and makes recommendations to the board.

The board has three standing committees, namely the:

Audit committee

The audit committee meets at least quarterly and also undertakes the roles of remuneration and risk committees.

The committee comprises three independent non-executive directors. The Chief Executive Officer, Chief Financial Officer, management company and external auditors are represented at meetings by invitation.

The committee operates according to written terms of reference approved by the board of directors, with its primary objectives being:

- to assist the board in discharging its duties relating to the safeguarding of assets, the operating of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal and JSE Limited listings requirements and accounting standards;
- to evaluate the independence and effectiveness of the external auditors and consider any non-audit services rendered by such auditors as to whether they materially impair their independence;
- to evaluate the performance of the external auditors and make recommendations to the board on any change to the appointment of external auditors;
- to monitor and review external audit findings and recommendations, reports, audit plans and fees and the approval thereof;
- to review the processes and procedures for risk identification, analysis and qualification;
- to review the processes implemented to monitor ongoing management of risks;
- to monitor the ethical conduct of the company, its executives and senior officials;
- environmental and social issues.

The committee meets at least once a year with the external auditors without any executive member of the management company being present.

BEE committee

The committee has been established to make recommendations to the board on how best to achieve the objectives of the Property Transformation Charter ("the Charter"); to oversee general compliance with the Charter; and to monitor ongoing BEE initiatives.

The committee meets at least quarterly and comprises two independent non-executive directors and one executive director. The committee operates according to written terms of reference approved by the board of directors.

Investment committee

The committee comprises two independent non-executive directors and two executive directors. The committee meets on an ad-hoc basis as required, to consider proposals for the acquisitions together with proposed lease/management structures, capital expenditure and sales of investment properties. Each transaction is considered individually in line with the Fund's strategy for acquisitions and disposals as agreed by the board. Proposals believed to be feasible are recommended to the board for approval.

BEE OWNERSHIP

The company subscribes to the provisions of the Property Transformation Charter and is committed to meeting its targets and requirements.

The facilitation of a number of recent property acquisitions, by the issue of A- and B-linked units to Nobuntu Investments II (Pty) Ltd ('Nobuntu II'), formed part of the implementation of Hospitality's overall BEE initiative and its objective of introducing meaningful participation by historically disadvantaged South Africans ('HDSAs') to the Listed Property Sector.

Nobuntu II effectively acquired 9 513 012 new A-linked units and 9 513 012 new B-linked units in Hospitality, which equate to 20,8% of the total A- and B-linked units in issue. Together with the original Nobuntu transaction initiated at the time of Hospitality's listing, the Fund's BEE ownership will now equate to 26,3% of units in issue.

Nobuntu II is a majority black-owned company, which has been established for the purpose of facilitating the BEE transaction. The shareholders of Nobuntu II are Meago

Trading (Pty) Ltd (49,9%), Grapnel Property Asset Managers (Pty) Ltd (25,2%), and Bustque 279 (Pty) Ltd (a wholly owned subsidiary of Pan-African Capital Holdings (Pty) Ltd) (18,2%) and Morgan West Structured Investments Ltd (6,7%).

Hospitality currently has an overall BEE ownership of 30,4% of total units in issue through the National Empowerment Fund Corporation (Pty) Limited and its BEE partners: Nobuntu Investments (Pty) Limited and Nobuntu Investments II (Pty) Limited.

EMPLOYMENT EQUITY

As the company has no employees, having contracted out the asset management and hotel management functions, it has neither employee share incentive schemes nor any other employee targeted programmes. It does, however, encourage and support such practices within its contracted third party managers.

COMMUNICATION AND INVESTOR RELATIONS

Hospitality meets regularly with institutional investors and investment analysts and gives annual presentations on the company and its performance. The company communicates with the broader investor community via press releases and limited radio interviews.

Hospitality's website www.hpf.co.za is also a valuable tool in communicating with its stakeholders.

The annual general meeting is an ideal opportunity for unitholders to engage with the directors and management team and unitholders are encouraged to attend this event. The notice of the meeting can be found on pages 60 to 65 of this report.

"THE COMPANY SUBSCRIBES TO THE PROVISIONS OF THE PROPERTY TRANSFORMATION CHARTER AND IS COMMITTED TO MEETING ITS TARGETS AND REQUIREMENTS."



ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2007

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“R1,7 BILLION PROPERTY PORTFOLIO VALUATION
AT 30 JUNE 2007.”



Diversification

“THE RESULTS ACHIEVED DURING THIS FIRST FULL YEAR TRADING
PERIOD HAVE SIGNIFICANTLY EXCEEDED EXPECTATIONS.”

Directors' responsibility for the annual financial statements

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Hospitality Property Fund Limited, comprising the balance sheets at 30 June 2007, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.


The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and annual financial statements of Hospitality Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 29 August 2007 and signed on their behalf by



T E Sewell
Chairman



G A Nelson
Chief Executive Officer

Certificate by the company secretary

We hereby certify that for the year ended 30 June 2007, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 1973, as amended, and all such returns are true, correct and up to date.



Hospitality Property Fund Managers (Pty) Ltd
Secretaries

29 August 2007

Independent auditors' report

TO THE MEMBERS OF HOSPITALITY PROPERTY FUND LIMITED

We have audited the group annual financial statements and the annual financial statements of Hospitality Property Fund Limited, which comprise the balance sheets at 30 June 2007, and the income statements, the statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 29 to 57.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditors' report continued

OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Hospitality Property Fund Limited at 30 June 2007, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor



Per G M Pickering
Chartered Accountant (SA)
Registered Auditor
Director

29 August 2007

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Directors' report

The directors have pleasure in submitting their report for the year ended 30 June 2007.

The company was founded with the intention of carrying on business as a property holding and investment company directly through the holding of listed and unlisted securities and the business of property investment and development.

NATURE OF BUSINESS

Hospitality Property Fund Limited is a variable property loan stock company ('PLS') listed on the JSE Limited ('JSE'). The company is the first specialised PLS investing in the hotel and leisure sector, providing investors exposure to both the property and hospitality industries.

The property portfolio consists of interests in 21 properties valued at R1,7 billion.

REVIEW OF OPERATIONS

The results of the group and the company are set out in the annual financial statements and are commented on in the Fund Managers' report on pages 2 to 10.

SHARE CAPITAL AND DEBENTURES

The authorised share capital of the company consists of 200 million A-linked units and 200 million B-linked units of R0,0001 each, amounting to R40 000 in total. Each ordinary share is linked to a debenture of R9,40 and may only be traded on the JSE as a combined unit.

During the period 9 513 012 A-linked units and 9 513 012 B-linked units were issued at R10,87 and R10,60 per unit respectively.

Further details of the share capital and debentures are set out in notes 7 and 9 to the annual financial statements.

DIRECTORATE

Details of the composition and changes to the board can be found on page 19.

In terms of the company's articles of association Mr W C Ross retires by rotation and offers himself for re-election.

Directors' report continued

DIRECTORS' INTERESTS

The directors' holding of linked units at 30 June 2007 were:

		2007 Number of units		2006 Number of units	
		A-linked unit	B-linked unit	A-linked unit	B-linked unit
Direct beneficial					
J J P G Bass*				–	75 100
T E Sewell		30 000	34 800	30 000	34 800
B M Madumise		–	–	46 000	53 360
		30 000	34 800	76 000	163 260
Indirect beneficial					
Y Aminzadeh	Note 2	132 496	152 036	106 392	121 750
M S Hoosen†	Note 1	1 288 459	748 279	637 364	1 814
B M Madumise		302 940	–	302 940	–
G A Nelson	Notes 1 and 2	1 726 528	1 334 814	730 635	340 676
		3 450 423	2 235 129	1 777 331	464 240

†Resigned 16 August 2007

During the year ended 30 June 2007, directors carried out the following transactions:

Director	Date	Number of units		Nature of transaction	Price (cents per unit)
		A-linked unit	B-linked unit		
B M Madumise	12 October 2006	46 000		Open market sale	1 170
					53 360
J J P G Bass *	8 December 2006		10 000	Open market sale	1 360
					1 640
J J P G Bass *	18 December 2006		10 000	Open market sale	1 382
J J P G Bass *	19 December 2006		10 000	Open market sale	1 390
J J P G Bass *	20 December 2006		5 000	Open market sale	1 400

*Resigned 10 April 2007

NOTES

- As a result of a recent BEE transaction and the acquisition of 9 513 012 A-linked units and 9 513 012 B-linked units of Hospitality by its BEE partner, Nobuntu Investments II (Pty) Ltd, Messrs Hoosen and Nelson's indirect interests in Hospitality have increased by 651 095 A-linked units and 746 465 B-linked units and 1 006 857 A-linked units and 1 006 857 B-linked units respectively.
- Through their indirect interests in Hospitality Property Fund Managers (Pty) Ltd ('HPF Manco'), Messrs Aminzadeh and Nelson own 255 035 A-linked units and 261 086 B-linked units in Hospitality respectively. In terms of a provision of the HPF Manco shareholders agreement, the allotment of additional shares to the existing shareholders of HPF Manco has resulted in a change in the company's shareholding from Grapnel Property Asset Managers (Pty) Ltd (Grapnel) (65%) and Hotel Tourism and Leisure Asset Management (Pty) Ltd ('HTLAM') (35%) (formerly Horwath Tourism and Leisure Asset Management), to Grapnel (53,4%) and HTLAM (46,6%). The aforementioned change resulted in a shift in proportion of the indirect shareholdings of Messrs Aminzadeh and Nelson.

DIRECTORS' REMUNERATION

Remuneration of directors is disclosed in note 13 of the annual financial statements.

MANAGEMENT AND ADMINISTRATION

The group and company are managed by Hospitality Property Fund Managers (Pty) Limited (HPF Manco) in terms of a management agreement concluded on 15 January 2006. The shareholders of HPF Manco are Grapnel Property Asset Managers (Pty) Limited (53,4%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (46,6%). Hospitality Hotel Management Company (Pty) Ltd (Hotel Manco) which is owned by Grapnel (53,4%) and HTLAM (46,6%) is also the hotel management company of The Rosebank Hotel, The Winkler Hotel, Mount Grace Country House and Spa, The Richards Hotel, The Bayshore Inn, The Imperial Hotel and The Hazyview Hotel.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

The company's status with regards to corporate governance and internal controls is set out in a separate statement in the annual report.

COMPANY SECRETARY

The secretary of the company is Hospitality Property Fund Managers (Pty) Limited.

The business and postal address of the company is set out on the inside back cover.

SUBSIDIARY COMPANY

Information relating to the company's interest in its subsidiary is detailed in note 4 of the annual financial statements.

SUBSEQUENT EVENTS

As announced to unitholders on 30 July 2007, the Fund has entered into agreements to acquire Hluhluwe Hotel & Safaris (Hluhluwe, KZN) under a C-Corp lease structure, as well as further exposure to certain properties in which the Fund is already invested, comprising the remaining 32% shareholding in the Park Inn Greenmarket Square, the remaining 35% shareholding in 90 units at the Radisson Hotel Waterfront and an extension to the Birchwood Executive Hotel & Conference Centre (all fixed leases). These properties are to be acquired for a total consideration of R195 million and were independently valued at R238 million, representing a 23% surplus to acquisition price. These acquisitions are likely to become effective between August and November 2007.

GOING CONCERN

The directors have made an assessment of the group and company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

Balance sheets

as at 30 June 2007

	Note	GROUP		COMPANY	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
ASSETS					
Non-current assets		1 678 863	1 161 144	976 435	749 400
Investment properties	2	1 662 747	1 159 367	–	–
Straight-line rent income accrual	3	5 612	1 777	–	–
Derivative asset	10	10 504	–	–	–
Interest in subsidiary	4	–	–	976 435	749 400
Current assets		20 970	21 614	3 356	–
Trade and other receivables	5	13 443	17 260	3 356	–
Cash and cash equivalents	6	7 527	4 354	–	–
Total assets		1 699 833	1 182 758	979 791	749 400
EQUITY AND LIABILITIES					
Equity		360 289	146 303	64 890	39 464
Share capital and share premium	7	64 890	39 464	64 890	39 464
Retained income		4 815	980	–	–
Fair value reserve	8	290 584	105 859	–	–
Non-current liabilities		1 225 306	987 363	858 929	680 085
Debentures	9	858 929	680 085	858 929	680 085
Interest-bearing liabilities	10	250 570	251 272	–	–
Derivative liability	10	–	8 550	–	–
Deferred taxation	11	115 807	47 456	–	–
Current liabilities		114 238	49 092	55 972	29 851
Trade and other payables	12	58 266	19 241	–	–
Debenture interest payable		55 972	29 851	55 972	29 851
Total equity and liabilities		1 699 833	1 182 758	979 791	749 400
NET ASSET VALUE PER LINKED UNIT (R)					
A-linked unit		13,34	11,42	10,11	9,95
B-linked unit		13,34	11,42	10,11	9,95

Income statements

for the year ended 30 June 2007

	Note	GROUP		COMPANY	
		2007 R'000	4½ months 2006 R'000	2007 R'000	4½ months 2006 R'000
Revenue		142 391	48 970	–	–
Rental income – contractual		138 556	47 193	–	–
– straight-line accrual		3 835	1 777	–	–
Expenditure		(18 921)	(6 355)	–	–
Property and other operating expenses		(18 921)	(6 355)	–	–
Operating profit	13	123 470	42 615	–	–
Listing expenses		–	(1 604)	–	–
Net finance cost	14	(24 206)	(10 180)	95 429	29 851
Finance income		4 240	1 586	95 429	29 851
Finance costs		(28 446)	(11 766)	–	–
Profit before debenture interest, fair value adjustments and taxation		99 264	30 831	95 429	29 851
Recoupment of debenture interest	5	3 356	–	3 356	–
Debenture interest		(98 785)	(29 851)	(98 785)	(29 851)
Profit before fair value adjustments and taxation		3 835	980	–	–
Fair value adjustments		253 076	153 315	–	–
Revaluation of investment properties		237 857	163 642	–	–
Straight-line rental income accrual		(3 835)	(1 777)	–	–
Interest-rate swaps		19 054	(8 550)	–	–
Profit before taxation		256 911	154 295	–	–
Taxation	15	(68 351)	(47 456)	–	–
Profit for the period		188 560	106 839	–	–
Distribution per linked unit (cents)					
A-linked unit	16	100,46	37,40	100,46	37,40
B-linked unit	16	140,40	45,12	140,40	45,12
		240,86	82,52	240,86	82,52
Basic earnings per share (cents)					
A-linked unit	16	238,50	147,67	–	–
B-linked unit	16	238,50	147,67	–	–
		477,00	295,34	–	–

Statements of changes in equity

for the year ended 30 June 2007

	Share capital R'000	Share premium R'000	Retained income R'000	Fair value reserve R'000	Total R'000
GROUP					
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Profit for the period/total income and expenses for the period			106 839		106 839
Transfer to/(from) fair value reserve – revaluation of investment properties (net of deferred tax)			(116 186)	116 186	–
Transfer to/(from) fair value reserve – straight-line rental income			1 777	(1 777)	–
Transfer to/(from) fair value reserve – interest-rate swaps			8 550	(8 550)	–
Balance at 30 June 2006	7	39 457	980	105 859	146 303
Issue of ordinary shares	2	25 424			25 426
Profit for the year/total income and expenses for the year			188 560		188 560
Transfer to/(from) fair value reserve – revaluation of investment properties (net of deferred tax)			(169 506)	169 506	–
Transfer to/(from) fair value reserve – straight-line rental income			3 835	(3 835)	–
Transfer to/(from) fair value reserve – interest-rate swaps			(19 054)	19 054	–
Balance at 30 June 2007	9	64 881	4 815	290 584	360 289
COMPANY					
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Balance at 30 June 2006	7	39 457	–	–	39 464
Issue of ordinary shares	2	25 424			25 426
Balance at 30 June 2007	9	64 881	–	–	64 890

Cash flow statements

for the year ended 30 June 2007

	Notes	GROUP		COMPANY	
		2007 R'000	2006 R'000	2007 R'000	2006 R'000
Cash flows from operating activities					
Cash generated from/(utilised in) operations	17	162 477	41 215	(3 356)	–
Finance income received	14	4 240	1 586	95 429	29 851
Finance costs paid	14	(28 446)	(11 766)	–	–
Distribution to unitholders	18	(69 308)	–	(69 308)	–
Net cash inflow from operating activities		68 963	31 035	22 765	29 851
Cash flows from investing activities					
Acquisition of investment properties	19	(269 358)	(997 502)	–	–
Loan advanced to subsidiary		–	–	(227 035)	(749 400)
Net cash outflow from investment activities		(269 358)	(997 502)	(227 035)	(749 400)
Cash flows from financing activities					
Proceeds from the issue of linked units		204 270	723 494	204 270	723 494
Share issue expenses paid		–	(3 945)	–	(3 945)
Interest-bearing liabilities (repaid)/raised		(702)	251 272	–	–
Net cash inflow from financing activities		203 568	970 821	204 270	719 549
Net increase in cash and cash equivalents		3 173	4 354	–	–
Cash and cash equivalents at beginning of period		4 354	–	–	–
Cash and cash equivalents at end of period		7 527	4 354	–	–

Notes to the annual financial statements

for the year ended 30 June 2007

1. ACCOUNTING POLICIES

Hospitality Property Fund Limited ('the company') is a company domiciled in South Africa. The consolidated financial statements of the company for the year ended 30 June 2007 comprise those of the company and its subsidiary (together referred to as the 'group'). The financial statements were authorised for issue by the directors on 29 August 2007.

1.1 Statement of compliance

The financial statements and group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

1.2 Basis of preparation

The financial statements are presented in Rand rounded to the nearest thousand. They are prepared on the historical cost basis except for investment properties and certain financial instruments which are stated at fair value. Fair value adjustments (where applicable) do not affect the calculation of distributable earnings but do affect the net asset value per linked unit to the extent that adjustments are made to the carrying values of assets and liabilities.

The accounting policies set out below have been applied consistently by all group entities and are consistent with prior years.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not apparent from other sources. Significant estimates are required in the determination of future cash flows, probabilities in assessing net recoverable amounts and fair value for disclosure purposes. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

1.3 Basis of consolidation

The consolidated financial statements include those of the company and its subsidiary.

Subsidiaries are those entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the case of the company, investments in subsidiaries are carried at cost less impairment losses.

Intra-group transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1.4 Investment properties

Investment properties consist of properties held to earn rental income for the long term and subsequent capital appreciation. Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure.

Subsequent expenditure is capitalised when it is probable that future economic benefits from the use of the investment property will be increased. On redeveloping an existing investment property, all costs directly attributable to the construction (including finance costs) are capitalised. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition investment properties are measured at their fair value. Fair value is determined annually based on the open market value basis, using either the discounted cash flow method or the capitalisation of net income method. Gains or losses arising from changes in fair value are included in profit or loss for the period in which they arise. These gains or losses are transferred to a fair value reserve as they are not available for distribution.

Realised profits and losses on the disposal of investment properties are recognised in profit or loss for the period and are calculated as the difference between the sale price and the carrying amount of the property. The net profit or loss on the sale of investment properties is transferred to a capital reserve. The balance relating to the sold properties, which were previously included in the fair value reserve, is also transferred to the capital reserve.

1.5 Financial instruments

Financial instruments are initially measured at fair value, which includes transaction costs. Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, other financial liabilities and derivative financial instruments. Any gains or losses on these financial instruments arising from changes in fair value do not affect distributable earnings.

Subsequent to initial recognition, financial instruments are measured on the basis set out below:

1.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid, investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value. Cash and cash equivalents are subsequently stated at fair value.

1.5.2 Trade and other receivables

Trade and other receivables are subsequently stated at amortised cost, less impairment losses. An estimate is made for doubtful debts based on a review of all outstanding amounts on an ongoing basis. Bad debt impairments are recognised in profit or loss during the period in which they are identified.

1.5.3 Trade and other payables

Trade and other payables are stated at amortised cost.

Notes to the annual financial statements continued

for the year ended 30 June 2007

1.5.4 Other financial liabilities

Interest-bearing borrowings and debentures are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

1.5.5 Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities. The group does not hold or issue derivative financial instruments for trading purposes. However, as the hedge relationship is not designated as a hedge for accounting purposes, the derivatives are accounted for as trading instruments.

Derivative financial instruments are subsequently stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. These gains or losses are transferred to a fair value reserve as they are not available for distribution.

The only derivative instrument held by the group is an interest-rate swap. The fair value of an interest-rate swap is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking account of current interest rates and the current creditworthiness of the swap counterparties.

1.5.6 De-recognition

The group de-recognises a financial asset when and only when:

- a) The contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the company;
- b) It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- c) It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is de-recognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

1.6 Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the group has a legally enforceable right to set off the recognised amounts, and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7 Impairment

The carrying amount of the group's assets, other than investment property and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss in the period in which they are incurred.

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the case of receivables carried at cost and other assets, an impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

1.8 Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds.

1.9 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

1.10 Revenue recognition

1.10.1 Rental income

Revenue from the letting of investment property comprises rentals (excluding VAT) and is recognised on a straight-line basis over the term of the lease. Contingent rentals are included in revenue when the amounts can be reliably measured. Recoveries of costs from lessees, where the company merely acts as agent and makes payment of these costs on behalf of lessees, are offset against the relevant costs.

1.10.2 Finance income

Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

1.11 Expenses

1.11.1 Letting costs

Letting costs, which include tenant installations, letting commissions and stamp duty, are written off over the period of the applicable lease, with the deferred portion being included in receivables.

Notes to the annual financial statements continued

for the year ended 30 June 2007

1.11.2 Finance costs

Finance costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.

The amount of finance costs eligible for capitalisation is the actual finance costs on funds borrowed in respect of the specific asset less any temporary investment of those borrowings. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended uses are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred using the effective interest method.

1.12 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for when they arise on initial recognition of assets and liabilities, and the initial recognition affects neither accounting profit nor taxable income and on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties are held as long-term income generating assets. Should any property no longer meet the company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies is recognised at the same time as the liability to pay the related dividend.

1.13 Segment reporting

On a primary basis the operations are organised into three segments, namely fixed leases, variable leases and C-Corp leases.

The geographical split is a secondary segment, with the major geographical segments being Gauteng, Western Cape, KwaZulu-Natal, Eastern Cape and Mpumalanga.

1.14 Forthcoming requirements

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. The following would be applicable to the group:

IFRS 7 – Financial Instruments: Disclosures (including amendments to IAS 1, Presentation of Financial Statements and Capital Disclosures)

IFRS 7 and the amendments to IAS 1 deal mainly with the disclosure of financial instruments, the related qualitative and quantitative risks associated with financial instruments and objectives, processes and policies for managing capital. To a large extent these disclosure requirements were previously covered in terms of IAS 30 and IAS 32. The standard and amendments will therefore not impact the results of the group but will result in increased disclosure relating to financial instruments in particular.

IFRS 8 – Operating segments

IFRS 8 replaces IAS 14 Segment Reporting and aligns segment reporting with the requirements of SFAS 131 (US Standard).

The standard requires an entity to adopt the “management approach” when reporting on the financial performance of its operating segments. The reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The statement will therefore not impact the results of the group but will impact the format of disclosure and measurement of the results of reportable segments.

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
2. INVESTMENT PROPERTIES				
Balance at the beginning of the year	1 159 367	–	–	–
Additions at cost – acquisitions	259 306	997 502	–	–
– capitalised expenditure	10 052	–	–	–
Fair value adjustment	237 857	163 642	–	–
Property valuation	1 666 582	1 161 144	–	–
Less: Straight-line rental income accrual	(3 835)	(1 777)	–	–
Balance at end of year	1 662 747	1 159 367	–	–
The investment property portfolio serves as collateral against loans from funding banks.				
Investment properties were independently valued at 30 June 2007 by JHI (Gensec Property Services Ltd). The valuation of the portfolio was split between the following registered valuers:				
Mr R A Long, BSc, MBA, FRICS, MIV (SA), Chartered Valuation Surveyor;				
Mr A D Edwards, FRICS, MIV (SA), Chartered Valuation Surveyor; and				
Mr S Mulenga, BSc, MRICS, MIV (SA), Chartered Valuation Surveyor				
The valuation was undertaken using the capitalisation of net income approach.				
A discounted cash flow analysis was carried out to validate the market value as determined by the income capitalisation method.				
A summary of the valuation is reflected on page 16 of the report.				
Details of acquisitions subsequent to year end are contained in the directors' report on page 31.				
3. STRAIGHT-LINE RENT INCOME ACCRUAL				
Balance at beginning of year	1 777	–	–	–
Straight-line rental accrued during year	3 835	1 777	–	–
Balance at end of year	5 612	1 777	–	–

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
4. INTEREST IN SUBSIDIARY				
HPF Properties (Pty) Ltd (100% direct holding)				
Shares at cost (R120)			–	–
Loan to subsidiary			976 435	749 400
			976 435	749 400
The subsidiary's principal activity is investment in properties in the hotel and leisure sector. The subsidiary has an issued share capital of R120 and is wholly owned by the company. The loan to HPF Properties (Pty) Ltd has no fixed terms of repayment and bears interest at a rate not less than 99,99% of the net profit of HPF Properties (Pty) Ltd. Interest is payable six monthly. An amount of R95,429 million (2006: R29,851 million) has been paid as interest to the holding company during this year.				
5. TRADE AND OTHER RECEIVABLES				
Variable rentals	–	6 537	–	–
Sundry debtors	7 566	6 852	–	–
Recoupment of debenture interest*	3 356	–	3 356	–
Prepayments	1 010	3 557	–	–
VAT refund due from SARS	1 511	–	–	–
Rental debtors	–	314	–	–
	13 443	17 260	3 356	–
*In terms of the agreement with Nobuntu Investments II (Pty) Ltd, our BEE partner, all distributions in respect of units issued in terms of the BEE transaction announced on 18 December 2006 that relates to a period prior to the unit issue date would be refunded to HPF. As distributions are paid out on a six-monthly basis a pro rata distribution would have to be refunded by Nobuntu Investments II (Pty) Ltd.				
6. CASH AND CASH EQUIVALENTS				
Comprises bank balances of current and call accounts	7 527	4 354	–	–

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
7. SHARE CAPITAL AND SHARE PREMIUM				
Share capital				
<i>Authorised</i>				
A shares – 200 000 000 ordinary shares of R0,0001 each	20	20	20	20
B shares – 200 000 000 ordinary shares of R0,0001 each	20	20	20	20
<i>Issued</i>				
A shares – 45 687 735 (2006 – 36 174 723) ordinary shares of R0,0001 each	4,6	3,6	4,6	3,6
B shares – 45 687 735 (2006 – 36 174 723) ordinary shares of R0,0001 each	4,6	3,6	4,6	3,6
	9,2	7,2	9,2	7,2
Each share is linked to a debenture, which together form a linked unit.				
10% of the unissued shares are under the control of the directors of the company subject to the provisions of the Companies Act, 1973 and the requirements of the JSE.				
Share premium				
Balance at beginning of year	39 457	–	39 457	–
Premium on share issue	25 424	43 402	25 424	43 402
Share issue expenses	–	(3 945)	–	(3 945)
Balance at end of year	64 881	39 457	64 881	39 457
Share capital and share premium	64 890	39 464	64 890	39 464
8. FAIR VALUE RESERVE				
Revaluation of investment properties (net of deferred tax)	285 692	116 186	–	–
Revaluation of interest-rate swap	17 277	(1 777)	–	–
Revaluation of straight-line rental	(12 385)	(8 550)	–	–
	290 584	105 859	–	–

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
9. DEBENTURES				
Issued	858 929,42	680 084,80	858 929,42	680 084,80
A shares – 45 687 735 (2006 – 36 174 723) debentures at R9,40 each	429 464,71	340 042,40	429 464,71	340 042,40
B shares – 45 687 735 (2006 – 36 174 723) debentures at R9,40 each	429 464,71	340 042,40	429 464,71	340 042,40
Each debenture is linked to a share, which together form a linked unit. The aggregate distribution of interest on the linked units will be not less than 99,99% of the net income as defined in the debenture trust deed. Interest distributions will be payable six-monthly.				
The debentures are redeemable at their nominal value at the instance of the debenture holders any time after 25 years after the date of allotment. The right of redemption may be exercised only by special resolution of the debenture holders. Upon passing of the special resolution the debentures shall be redeemed by the company at their nominal value on the last Friday prior to the 5th anniversary of the special resolution. The debenture trust deed is available for inspection by linked unitholders or their duly authorised agents at the registered office of the company.				
The rights of debenture holders to repayment are subordinated to the claims of the unsubordinated creditors.				
Subject to the subordination provisions, the debentures will be repayable if a final order of a competent court is made or an effective resolution is passed for the winding up of the company.				

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
10. INTEREST-BEARING LIABILITIES AND DERIVATIVES				
10.1 Interest-bearing liabilities	250 570	251 272	–	–
ABSA Bank Limited	250 570	125 636	–	–
Interest is payable at JIBAR plus 1,4% on a nominal annual compounded monthly basis.				
Standard Bank of South Africa Limited	–	125 636	–	–
Interest is payable at JIBAR plus 1,5% on a nominal annual compounded monthly basis.				
The above loan with ABSA Bank Limited is secured in terms of a first mortgage bond over investment properties with a market value of R1,7 billion and a cession of leases and rentals in respect of bonded properties. The loans with a capital repayment of R253 million are repayable on 10 February 2012.				
The Standard Bank loan was repaid during the year.				
Hospitality Property Fund Limited applies all surplus cash to its floating facilities to reduce gearing and interest rate costs. At year end date all floating facilities were repaid.				
In terms of its articles of association the borrowing powers of the company, excluding the debentures, are limited to 65% of the valuation of the group's property portfolio.				
10.2 Derivative asset/(liability)				
ABSA Bank Limited	10 504	(8 550)	–	–
An interest-rate swap has been entered into on interest bearing liabilities of R253 million at a rate of 7,43% per annum linked to JIBAR from 10 February 2006 to 9 February 2009.				

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
11. DEFERRED TAXATION				
Change in fair value of investment properties	115 807	47 456	–	–
Deferred taxation on the fair value adjustment of investment properties has been calculated at 14,5% on land value and 29% on buildings.				
12. TRADE AND OTHER PAYABLES				
Retentions	3 042	13 655	–	–
Vendors on purchase of property	40 325	–	–	–
Trade payables	12 550	5 007	–	–
Tenant deposits	1 758	488	–	–
VAT payable	591	91	–	–
	58 266	19 241	–	–
13. OPERATING PROFIT				
Operating profit is stated after charging the following:				
Auditors' remuneration				
– Audit fee	300	300	–	–
Directors' emoluments	705	450	–	–
Management fees payable to Hospitality Property Fund Managers (Pty) Limited	14 347	4 397	–	–
Property and other expenses were incurred to generate rental income.				

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
13. OPERATING PROFIT <i>continued</i>				
13.1 Directors' emoluments				
Fees for services as directors				
Non-executive				
T E Sewell (Chairman)	145	73	–	–
K H Abdul-Karrim	120	60	–	–
Y Aminzadeh (paid to Hotel Tourism and Leisure Asset Management (Pty) Limited)*	40	60	–	–
J J P G Bass**	60	60	–	–
M S Hoosen (paid to Meago (Pty) Limited)	158	79	–	–
B M Madumise	109	54	–	–
G A Nelson*	43	64	–	–
W C Ross**	30	–	–	–
	705	450	–	–
Executive (remuneration packages were borne by Hospitality Property Fund Managers (Pty) Ltd.)				
Y Aminzadeh*	500	–	–	–
R Asmal	699	167	–	–
B Hutchison***	551	314	–	–
G A Nelson*	500	–	–	–
A S Rogers****	577	–	–	–
	2 827	481	–	–

* Y Aminzadeh and G A Nelson were non-executive to 31 October 2006. The Board was restructured and they became executive directors thereafter.

** J J P G Bass resigned on 10 April 2007 and W C Ross was appointed in his stead.

*** B Hutchison resigned on 31 October 2006.

**** A S Rogers was appointed on 1 February 2007.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
14. FINANCE INCOME				
Tenants and positive bank balances	4 240	1 586	–	–
Subsidiary company	–	–	95 429	29 851
	4 240	1 586	95 429	29 851
FINANCE COSTS				
Interest-bearing liabilities	(28 446)	(11 766)	–	–
15. TAXATION				
Deferred taxation	68 351	47 456	–	–
No provision has been made for current taxation as the group has no taxable income for the period.				
Reconciliation of taxation rate				
Current taxation rate	29,0%	29,0%	–	–
Listing costs not included in distribution	–	0,2%	–	–
Interest-rate swap	(2,4%)	1,6%	–	–
Effective taxation rate	26,6%	30,8%	–	–
Deferred tax assets are recognised on deductible temporary differences to the extent that they offset deferred tax liabilities arising from taxable temporary differences. A deferred tax asset has not been recognised in respect of net deductible temporary differences because in practice all taxable income is distributed to linked unitholders.				
16. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT				
Profit for the period	188 560	106 839	–	–
Adjustments: Debenture interest	98 785	29 851	98 785	29 851
Earnings (linked units)	287 345	136 690	98 785	29 851
Adjustments:				
Fair value – investment properties revaluation (net of taxation)	(169 506)	(116 186)	–	–
Fair value – straight-line rental income	3 835	1 777	–	–
Headline earnings (linked units)	121 674	22 281	98 785	29 851
Listing expenses not included in distribution	–	797	–	–
Fair value – interest-rate swaps	(19 054)	8 550	–	–
Straight-line rental income	(3 835)	(1 777)	–	–
Distributable earnings	98 785	29 851	98 785	29 851

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	2007			2006		
	A units	B units	Total	A units	B units	Total
16. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT (continued)						
Number of units	45 687 735	45 687 735		36 174 723	36 174 723	
Weighted average number of units	39 530 070	39 530 070		36 174 723	36 174 723	
GROUP						
Distribution per linked unit (cents)	100,46	140,40	240,86	37,40	45,12	82,52
Earnings per linked unit (cents)	363,45	363,45	726,90	188,93	188,93	377,86
Headline earnings per linked unit (cents)	153,90	153,90	307,80	30,80	30,80	61,60
Basic earnings per share (cents)	238,50	238,50	477,00	147,67	147,67	295,34
COMPANY						
Distribution per linked unit (cents)	100,46	140,40	240,86	37,40	45,12	82,52
Earnings per linked unit (cents)	100,46	140,40	240,86	37,40	45,12	82,52
Headline earnings per linked unit (cents)	100,46	140,40	240,86	37,40	45,12	82,52
Basic earnings per share (cents)	–	–	–	–	–	–

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
17. CASH GENERATED FROM/(UTILISED IN) OPERATIONS				
Profit before taxation	256 911	154 295	–	–
Adjusted for: Net finance costs	24 206	10 180	(95 429)	(29 851)
Net debenture interest	95 429	29 851	95 429	29 851
Straight-lining accrual of rental income	(3 835)	(1 777)	–	–
Fair value adjustments	(253 076)	(153 315)	–	–
Cash generated before working capital changes	119 635	39 234	–	–
Changes in working capital	42 842	1 981	(3 356)	–
Decrease/(increase) in trade and other receivables	3 817	(17 260)	(3 356)	–
Increase in trade and other payables	39 025	19 241	–	–
	162 477	41 215	(3 356)	–

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
18. DISTRIBUTION TO UNITHOLDERS				
Amount per income statement	(95 429)	(29 851)	(95 429)	–
Movement in balance sheet	26 121	29 851	26 121	–
	(69 308)	–	(69 308)	–
19. ACQUISITION OF INVESTMENT PROPERTIES				
Amount per balance sheet	507 215	1 161 144	–	–
Fair value adjustments	(237 857)	(163 642)	–	–
Acquisition at cost	269 358	997 502	–	–
20. CAPITAL COMMITMENTS				
Authorised and committed	445 000	989	–	–
The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.				
21. CONTINGENT LIABILITIES				
The group has a dispute with the vendors of the Protea Marine for R3,2 million. The vendor is claiming that the movables were not included in the purchase price. The Fund Manager has appointed attorneys to refute the vendor's claim and defend any action instituted.				
22. MINIMUM LEASE RENTALS RECEIVABLE				
At 30 June 2007 the group had contracts with tenants for the following minimum lease rentals:				
Less than one year	111 570	89 706	–	–
Between one and five years	393 062	335 764	–	–
After five years	279 766	257 549	–	–
	784 398	683 019	–	–

Notes to the annual financial statements *continued*

for the year ended 30 June 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
23. RELATED PARTY TRANSACTIONS				
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party making financial or operational decisions. The following transactions were carried out with related parties during the period:				
Hospitality Property Fund Managers (Pty) Ltd (Manco) – Fund and asset manager*				
<i>Shareholders: Grapnel Property Asset Managers (Pty) Ltd (Grapnel) (53,4%) and Hotel Tourism and Leisure Asset Management (Pty) Ltd (HTLAM) (46,6%)</i>				
Brokerage fee paid by group	4 085	19 445	–	–
Management fee paid by group	14 347	4 397	–	–
Relationship – Fund Manager and directorial				
Majormatic 194 (Pty) Ltd (C-Corp) – Hotel operating company*				
<i>Shareholders: Grapnel (53,4%) and HTLAM (46,6%)</i>				
Rental received by group	47 815	13 682	–	–
Relationship – shareholding of Manco and directorial				
Hospitality Hotel Management Company (Pty) Ltd – Hotel management company				
<i>Shareholders: Grapnel (53,4%) and HTLAM (46,6%)</i>				
Management fee paid by hotels	4 083	963	–	–
Reimbursement of sales team costs	686	–	–	–
Relationship – shareholding of Manco and directorial				
Winkler Hotel Management Company (Pty) Ltd – Hotel management company				
<i>Shareholders: Grapnel (50,0%) and HTLAM (50,0%)</i>				
Management fee paid by hotel	138	51	–	–
Relationship – shareholding of Manco and directorial				

*Messrs Aminzadeh and Nelson have indirect interests in the above companies via their shareholdings in HTLAM and Grapnel respectively. Key management include the directors whose remuneration is included in note 13.

24. FINANCIAL RISK MANAGEMENT

Financial instruments consist mainly of deposits with banks, loans from banks, trade and other receivables, trade and other payables, interest-rate swaps and debentures. In respect of the abovementioned financial instruments, book values approximate fair value. Exposure to interest rate, credit and liquidity risks arises in the normal course of business.

Credit risk

Credit risk arises from the risk that trade receivables may default. Financial performance of tenant's business is monitored on an ongoing basis. In terms of the group structure there is a concentration of risk with the C-Corp leased properties. All lease agreements within the C-Corp structure are concluded with Majormatic 194 (Pty) Limited. Management receives comprehensive monthly management reports and attends the monthly meetings with the hotel operators in order to monitor performance and identify elements of credit risk.

Interest-rate risk

The only exposure to interest-rate risk relates to the interest-bearing liabilities, details of which are disclosed in note 10.

The group has entered into a swap contract starting on 10 February 2006, whereby R253 million has been fixed (excluding margins) at 7,43% on 9 February 2009.

The fair value of the swaps is estimated at R10,5 million based on the market value of similar instruments at the balance sheet date.

Cash and cash equivalents

It is group policy to deposit short-term cash investments with reputable financial institutions.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet a financial commitment. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments.

The company's borrowings are limited by its articles of association to 65% of the directors' bona fide valuation of the consolidated property portfolio.

The company's utilised borrowing capacity at 30 June 2007 can be summarised as follows:

	GROUP	
	2007 R'000	2006 R'000
Property valuation	1 668 359	1 161 144
65% thereof	1 084 434	754 744
Borrowings and unitholders for distribution	(306 542)	(281 123)
Unutilised borrowing capacity	777 892	473 621
Facilities available in terms of existing agreements	445 000*	425 000
Gearing ratio	18,4%	24,2%

*Post year end this facility has increased to R588 million.

Segmental information

for the period ended 30 June 2007
Group segmental analysis

PRIMARY SEGMENTS

On a primary basis the group is organised into four segments:

Fixed lease agreements – lease agreements where the major portion of the rental is fixed.

C-Corp lease agreements – lease agreements with Majormatic 194 (Pty) Ltd based on approximately 50% of the rental being fixed and the remainder being a variable rental equivalent to 90% of the hotels EBITDA after deducting the fixed rental portion.

Variable lease agreements – based on EBITDA with operators covering the properties in the Courtyard portfolio.

Corporate – Expenditure, assets and liabilities not directly allocated to a segment.

R'000	Fixed lease agreements	C-Corp lease agreements	Variable lease agreements	Corporate	Total
Income statement – 30 June 2007					
Segment revenue	83 943	47 859	10 589	–	142 391
Expenditure				(18 921)	(18 921)
Segment operating results	83 943	47 859	10 589	(18 921)	123 470
Net finance cost				(119 635)	(119 635)
Profit before fair value adjustments and taxation	83 943	47 859	10 589	(138 556)	3 835
Fair-value adjustments	118 682	82 210	33 130	19 054	253 076
Profit before taxation	202 625	130 069	43 719	(119 502)	256 911
Taxation				(68 351)	(68 351)
Segment result	202 625	130 069	43 719	(187 853)	188 560
Income statement – 30 June 2006					
Segment revenue	31 224	13 693	4 053	–	48 970
Expenditure				(6 355)	(6 355)
Segment operating results	31 224	13 693	4 053	(6 355)	42 615
Listing expenses				(1 604)	(1 604)
Net finance cost				(40 031)	(40 031)
Profit before fair value adjustments and taxation	31 224	13 693	4 053	(47 990)	980
Fair-value adjustments	114 853	61 028	13 402	(35 968)	153 315
Profit before taxation	146 077	74 721	17 455	(83 958)	154 295
Taxation				(47 456)	(47 456)
Segment result	146 077	74 721	17 455	(131 414)	106 839

R'000	Fixed lease agreements	C-Corp lease agreements	Variable lease agreements	Corporate	Total
Balance sheet – 30 June 2007					
Non-current assets					
Investment properties	865 000	700 159	103 200	–	1 668 359
Derivative asset				10 504	10 504
Current assets					
Trade and other receivables	950	5 199	775	6 519	13 443
Cash and cash equivalents				7 527	7 527
Segment assets	865 950	705 358	103 975	24 550	1 699 833
Liabilities					
Non-current liabilities					
Debentures				858 929	858 929
Interest-bearing liabilities				250 570	250 570
Deferred taxation				115 807	115 807
Current liabilities					
Trade and other payables	4 575	6 260	–	47 430	58 266
Debenture interest payable				55 972	55 972
Segment liabilities	4 575	6 260	–	1 328 708	1 339 543
Balance sheet – 30 June 2006					
Non-current assets					
Investment properties	732 725	358 350	70 069	–	1 161 144
Current assets					
Trade and other receivables	1 761	4 893	1 175	9 431	17 260
Cash and cash equivalents				4 354	4 354
Segment assets	734 486	363 243	71 244	13 785	1 182 758
Liabilities					
Non-current liabilities					
Debentures				680 085	680 085
Interest-bearing liabilities				251 272	251 272
Derivative liability				8 550	8 550
Deferred taxation				47 456	47 456
Current liabilities					
Trade and other payables	14 143	–	–	5 098	19 241
Debenture interest payable				29 851	29 851
Segment liabilities	14 143	–	–	1 022 312	1 036 455

Segmental information continued

for the year ended 30 June 2007
Group segmental analysis

SECONDARY SEGMENT

R'000	Gauteng	Western Cape	KwaZulu- Natal	Eastern Cape	Mpu- malanga	Corporate	Total
Income statement – 30 June 2007							
Segment revenue	77 947	24 055	25 637	13 346	1 406		142 391
Expenditure						(18 921)	(18 921)
Segment operating results	77 947	24 055	25 637	13 346	1 406	(18 921)	123 470
Net finance cost						(119 635)	(119 635)
Profit before fair value adjustments and taxation	77 947	24 055	25 637	13 346	1 406	(138 556)	3 835
Fair-value adjustments	111 172	56 602	58 439	7 734	3 911	15 218	253 076
Profit before taxation	189 119	80 657	84 076	21 080	5 317	(123 338)	256 911
Taxation						(68 351)	(68 351)
Segment result	189 119	80 657	84 076	21 080	5 317	(191 689)	188 560
Income statement – 30 June 2006							
Segment revenue	28 779	6 702	8 190	5 018	281		48 970
Expenditure						(6 355)	(6 355)
Segment operating results	28 779	6 702	8 190	5 018	281	(6 355)	42 615
Listing expenses						(1 604)	(1 604)
Net finance cost						(40 031)	(40 031)
Profit before fair value adjustments and taxation	28 779	6 702	8 190	5 018	281	(47 990)	980
Fair-value adjustments	150 127	8 834	31 852	(1 173)	1 421	(37 746)	153 315
Profit before taxation	178 906	15 536	40 042	3 845	1 702	(85 736)	154 295
Taxation						(47 456)	(47 456)
Segment result	178 906	15 536	40 042	3 845	1 702	(133 192)	106 839

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	Corporate	Total
Balance sheet – 30 June 2007							
Non-current assets							
Investment properties	806 700	325 559	344 800	134 000	57 300	–	1 668 359
Derivative asset						10 504	10 504
Current assets							
Trade and other receivables	4 065	890	1 283	670	–	6 535	13 443
Cash and cash equivalents						7 527	7 527
Segment assets	810 765	326 449	346 083	134 670	57 300	24 566	1 699 833
Liabilities							
Non-current liabilities							
Debentures						858 929	858 929
Interest-bearing liabilities						250 570	250 570
Deferred taxation						115 807	115 807
Current liabilities							
Trade and other payables	500	1 270	2 372	1 055	–	53 069	58 266
Debenture interest payable						55 972	55 972
Segment liabilities	500	1 270	2 372	1 055	–	1 334 347	1 339 544
Balance sheet – 30 June 2006							
Non-current assets							
Investment properties	680 494	160 000	184 800	124 500	11 350	–	1 161 144
Current assets							
Trade and other receivables	4 345	82	1 199	1 227	–	10 407	17 260
Cash and cash equivalents						4 354	4 354
Segment assets	684 839	160 082	185 999	125 727	11 350	14 761	1 182 758
Liabilities							
Non-current liabilities							
Debentures						680 085	680 085
Interest-bearing liabilities						251 272	251 272
Derivative liability						8 550	8 550
Deferred taxation						47 456	47 456
Current liabilities							
Trade and other payables	6 666	–	6 988	488	–	5 099	19 241
Debenture interest payable						29 851	29 851
Segment liabilities	6 666	–	6 988	488	–	1 022 313	1 036 455

Distribution policy

1. DISTRIBUTION FOR THE A DEBENTURES

Each first A debenture shall confer on the holder thereof the right to receive interest in respect of the first distribution period and the second distribution period, as follows:

- 1.1 for the second distribution period ended 30 June 2006, a semi-annualised return of 5,15% on the nominal value of the A debentures;
- 1.2 for the first distribution period ended 31 December 2006, a return of 5,28% on the nominal value of the A debentures;
- 1.3 for the second distribution period ended 30 June 2007, a return equal to the distribution for the second distribution period for the year ended 30 June 2006, escalated by 5%;
- 1.4 for the first distribution periods for the financial years ended June 2008 to 2012, a return equal to the determined or calculated distribution for the corresponding first distribution period for the prior year, escalated by 5%;
- 1.5 for the second distribution periods for the financial years ended June 2008 to 2012, a return equal to the determined or calculated second distribution for the corresponding second distribution period for the prior year, escalated by 5%;
- 1.6 for the first distribution periods and second distribution periods thereafter, to repayment of the A debentures, a return equal to the determined or calculated distribution for the corresponding distribution period for the prior year, escalated by the lesser of 5% or CPIX; [Clause 5.1 of the first supplemental debenture trust deed].

The payment of interest is not guaranteed by the Company and any amounts not paid shall not accrue or be cumulative, [Clause 5.3 of the first supplemental debenture trust deed].

2. DISTRIBUTION FOR THE B DEBENTURES

Each first B debenture shall confer on the holder thereof the right to receive interest in respect of the first and second distribution periods, a return amounting to the balance, if any, of the interest distribution after deducting the distribution to the A debentures; [Clause 6.1 of the first supplemental debenture trust deed].

Analysis of unitholders

Unitholder spread	A-linked unit				B-linked unit			
	Number of unit-holders	%	Number of linked units	%	Number of unit-holders	%	Number of linked units	%
1 – 1 000	302	43,33	140 166	0,31	282	15,02	157 657	0,35
1 001 – 10 000	278	39,89	976 226	2,14	1 315	70,06	5 643 352	12,35
10 001 – 100 000	65	9,33	2 696 143	5,90	233	12,41	5 758 276	12,60
100 001 – 1 000 000	42	6,03	13 544 018	29,64	40	2,13	12 237 451	26,78
1 000 001 units and over	10	1,42	28 331 182	62,01	7	0,38	21 890 999	47,92
Total	697	100	45 687 735	100	1 877	100	45 687 735	100
Distribution of unitholders								
Banks	4	0,57	96 716	0,21	4	0,21	192 034	0,42
Close corporations	9	1,29	8 447	0,02	18	0,96	143 383	0,31
Empowerment	3	0,43	17 036 177	37,29	2	0,11	10 774 595	23,58
Endowment funds	11	1,58	404 500	0,89	10	0,53	319 675	0,70
Individuals	445	63,85	1 163 504	2,55	1 388	73,95	7 013 875	15,35
Insurance companies	3	0,43	466 153	1,02	6	0,32	2 560 773	5,60
Investment companies	2	0,29	566 262	1,24	4	0,21	215 540	0,47
Medical aid schemes	3	0,43	132 100	0,29	2	0,11	11 600	0,03
Mutual funds	44	6,31	14 585 558	31,92	58	3,09	9 278 335	20,31
Nominees and trusts	91	13,06	2 720 563	5,95	224	11,93	6 364 258	13,93
Other corporations	12	1,72	84 925	0,19	42	2,24	704 307	1,54
Pension funds	32	4,59	7 764 542	16,99	57	3,04	4 482 152	9,81
Private companies	35	5,02	429 579	0,94	58	3,09	3 356 918	7,35
Public companies	2	0,29	3 674	0,01	3	0,16	9 204	0,02
Manco holdings	1	0,14	225 035	0,49	1	0,05	261 086	0,57
	697	100	45 687 735	100	1 877	100	45 687 735	100
Public/non-public shareholders								
Non-public shareholders	6	0,86	17 431 212	38,15	5	0,27	11 339 881	24,82
Directors holdings	2	0,29	170 000	0,37	2	0,11	304 200	0,67
Empowerment	3	0,43	17 036 177	37,29	2	0,11	10 774 595	23,58
Manco holdings	1	0,14	225 035	0,49	1	0,05	261 086	0,57
Public shareholders	691	99,14	28 256 523	61,85	1 872	99,73	34 347 854	75,18
	697	100	45 687 735	100	1 877	100	45 687 735	100
Beneficial shareholders holding of 3% or more								
Nobuntu Investments II (Pty) Ltd			9 513 012	20,82			9 513 012	20,82
Nobuntu Investments (Pty) Ltd			5 000 000	10,94				
Old Mutual Group							4 098 256	8,97
Coronation			4 308 624	9,43				
STANLIB funds			4 013 705	8,79				
Sanlam			2 622 418	5,74			2 190 996	4,80
National Empowerment Fund			2 523 165	5,52				
Standard Bank			2 191 932	4,80				
Board of Executors Noms Number 1			2 166 932	4,74			3 605 420	7,89
AECI			1 481 155	3,24				

Notice of annual general meeting of shareholders

Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)

(Registration number: 2005/014211/06)

Share code for A-linked units: HPA

ISIN for A-linked units: ZAE000076790

Share code of B-linked units: HPB

ISIN for B-linked units: ZAE000076808

('Hospitality' or 'the company')

Notice is hereby given that the third annual general meeting of shareholders of Hospitality Property Fund Limited will be held at the registered office of the company, 3 on Glenhove, corner Glenhove Road and Tottenham Avenue, Melrose Estate, Johannesburg 2196 on Friday, 2 November 2007 at 10:00 to conduct the following business:

ORDINARY BUSINESS

1. To receive and consider the annual financial statements of the company and the group for the year ended 30 June 2007 together with the reports of the directors and auditors thereon.
2. To re-elect the following director, who in terms of article 15.1 and 15.2 of the company's articles of association retires by rotation, and being eligible, offers himself for re-election:

W C Ross

CTA *University of the Witwatersrand*

CA(SA) (1971) *Public Accountants and Auditors Board*

Willy has over 30 years' experience in the Merchant Bank/Investment Bank industry following a three-year spell with a public quoted company after qualifying as a Chartered Accountant.

During his early Investment Banking career he managed the Corporate Finance activity and more recently, apart from his executive duties, also had responsibility for the Project and Structured Finance and Private Equity departments of Nedcor Investment Bank as well as its Risk and Compliance function.

Willy spent the last five years of his Investment Banking career directly involved in the operational aspects of Private Equity and served on the boards of numerous listed and non-listed companies.

Willy has had extensive experience in chairing the credit committee of Nedcor Investment Bank and Nedbank Capital for the last five years of his corporate life. Post-retirement Willy has accepted directorships on the boards of a number of listed and unlisted companies.

3. To authorise the directors to determine and pay the remuneration of the auditors for the year ended 30 June 2007.
4. To approve the non-executive directors' fees payable for the period 1 July 2007 to 30 June 2008. (It is proposed that the current fees be increased by 8%).
5. To re-appoint KPMG Inc. as auditors of the company until the conclusion of the next annual general meeting.
6. To consider and, if deemed fit, to pass with or without modification, the following special and ordinary resolutions set out below:

6.1 Special resolution number 1: Repurchase of shares

"Resolved that the directors be authorised by way of a general authority until the date of the next annual general meeting of the company (provided that this authority shall not extend beyond 15 months from the date of passing of this resolution), to approve the repurchase by the company, or one of its subsidiaries of its "A" and "B" shares, subject to the company's articles of association, the JSE Limited ('JSE') Listings

Requirements and the Companies Act, 61 of 1973, as amended ('Companies Act'), on the following basis: [5.72(c)]

- a) each repurchase of "A" or "B" shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party; [5.72(a)]
- b) the number of "A" and "B" shares respectively which may be acquired pursuant to this authority in any financial year may not in the aggregate exceed 20% of the company's share capital of the relevant class, in any one financial year (or such other percentage permitted from time to time by the JSE for repurchases); [5.68]
- c) repurchases may not be made at a price greater than that permitted pursuant to the listings requirements of the JSE; [5.72(d)]
- d) repurchases may not take place during a prohibited period; [5.72(g)]
- e) the company shall, as soon as it has, on a cumulative basis repurchased "A" or "B" shares, as the case may be, which constitute 3% of the initial number of shares of such class in issue (at the time that authority from shareholders for the repurchase was granted), and for each 3% in aggregate of the initial number of such class of shares acquired thereafter, publish an announcement to such effect, or any other announcement(s) that may be required in such regard in terms of the JSE listings requirements which may be applicable from time to time; [11.22]
- f) the company and the group will be in a position to repay their debt in the ordinary course of business for a period of 12 months from the company first acquiring securities under this general approval and subject to [j] below; [5.69(c) (i)] [11.26 (d) (i)]
- g) the assets of the company and the group, being fairly valued in accordance with International Financial Reporting Standards ("IFRS"), will be in excess of the consolidated liabilities of the company and the group at the time of the company acquiring securities under this general approval and subject to [j] below; [5.69(c) (ii)] [11.26 (d) (ii)]
- h) the share capital and reserves of the company and the group will be adequate for a period of 12 months from the company acquiring securities under this general approval and subject to [j] below; [5.69 (c) (iii)] [11.26 (d) (iii)]
- i) the available working capital will be adequate to continue the operations of the company and the group for a period of 12 months from the company acquiring securities under this general approval and subject to [j] below; and [5.69(c) (iv)] [11.26 (d) (iv)]
- j) upon entering the market to proceed with the repurchase, the company's Sponsor has complied with its responsibilities contained in Schedule 25 of the JSE listings requirements. [2.12 and Schedule 25]"

Reason for and effect of special resolution number 1:

The reason for and effect of special resolution number one is to enable the directors to approve the repurchase by the company of the company's "A" shares and "B" shares as part of the purchase of its A-linked units and B-linked units, on the terms set out above and provided that, after such repurchase, the company will still comply with the linked unitholder spread requirements set out in the listings requirements of the JSE.

At present the JSE does not allow repurchases to be made at a price greater than 10% above the weighted average of the respective market values of the A- and the B-linked units for the five business days immediately preceding the date on which the repurchase is effected. [5.72(d)]

Further, in accordance with the JSE listings requirements, the company may, at any point in time, only appoint one agent to effect repurchase(s). [5.72(e)]

Notice of annual general meeting *continued*

Although there is no immediate intention to effect a repurchase of linked units of the company, the directors would utilise the general authority to repurchase shares as and when suitable opportunities present themselves which opportunities may require immediate action;

Other disclosure in accordance with section 11.26 of the JSE listings requirements

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE listings requirements for purposes of this general authority:

- Directors – page 18 [7.B.1]
- Major beneficial linked unitholders – page 59 [7.A.27]
- Directors interests in linked units – page 30 [7.B.20]
- Share and debenture capital of the company – page 44 and 45 [7.B.4] [7.A.5]

Material change statement [11.26(b)(iii)]

Other than the facts and developments reported on in the annual report of which this notice forms part, there have been no material changes in the financial or trading position of the company or that of its subsidiaries since the date of signature of the audited annual financial statements and up to the date of this notice.

Directors' responsibility statement [11.26(b)(iv)]

The directors, whose names appear on page 18 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by the Companies Act and the JSE listings requirements.

Litigation statement [11.26]

In terms of section 11.26 of the JSE listings requirements the directors whose names appear on page 18 of the annual report of which this notice forms part are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position.

6.2 Special resolution number 2: Amendment of articles of association

"Resolved that, in terms of the provisions of section 62 of the Companies Act, the company's articles of association be and are hereby amended by:

- (i) The deletion of article 13.2 and the replacement thereof with the following new article 13.2 to provide as follows:
"13.2 Subject to article 13.8, the board shall comprise a balance of executive and non-executive directors of whom a majority shall be independent of management."
- (ii) The deletion of article 13.8 and the replacement thereof with the following new article 13.8 to provide as follows:
"13.8 The continuing directors may act notwithstanding:
13.8.1 any casual vacancy in their body; or
13.8.2 the fact that the board is for any reason not constituted in accordance with article 13.2,
for so long as there remain in office not less than the prescribed minimum number of directors qualified to act, but if the number falls below the prescribed minimum number of directors

duly qualified to act or there are less than two non-executive directors appointed to the board, the remaining directors shall not act except for the purpose of filling such vacancy or calling a general meeting of members.”

Reason for and effect of special resolution number 2

In terms of the company’s articles of association, in the event of any casual vacancy on the board which results in the board not being constituted in accordance with the current article 13.2, i.e “the board shall comprise a balance of executive and non-executive directors, with a majority of non-executive directors of whom a majority shall be independent of management”, the remaining directors are not qualified to act. It is therefore suggested that the above amendment be made to the articles of association so that the remaining directors may continue to act, subject to clause 13.8 and until such time that the vacancy is filled.

6.3 Special resolution number 3: Amendment of articles of association

“Resolved that, in terms of the provisions of section 62 of the Companies Act, the company’s articles of association be and are hereby amended by:

- (i) The deletion of article 17.3 and the replacement thereof with the following new article 17.3 to provide as follows:
“17.3 The directors may elect a chairman of their meetings and one or more deputy chairmen to preside in the absence of the chairman to hold office for a maximum period of 3 (three) years, upon expiry of which the chairman shall be eligible for reappointment for a further three (3) year period.”
- (ii) The deletion of article 15.5 and the replacement thereof with the following new article 15.5 to provide as follows:
“15.5 For the purpose of this Article 15, “director” shall mean a non-executive director and shall exclude the chairman.”

Reason for and effect of special resolution number 3

In terms of the company’s articles of association, the chairman shall hold office for a period of one year only and shall be subject to rotation. In order to conform to industry norm and for the purpose of ensuring continuance on the board, the abovementioned change to the articles of association is proposed. The change will allow for a maximum period of office of 3 (three) years for the chairman and one or more deputy chairmen and exclude the chairman from retiring at the annual general meetings held during his period of office. The chairman will be eligible for reappointment for a further 3 (three) year period upon expiry of his initial appointment.

6.4 Special resolution number 4: Amendment of articles of association

“Resolved that, in terms of the provisions of section 62 of the Companies Act, the company’s articles of association be and are hereby amended by the deletion of article 13.9.7 and the replacement thereof with the following new article to provide as follows:

“13.9.7 immediately after he has given notice in writing of his resignation; or”

Reason for and effect of special resolution number 4

In terms of the company’s articles of association, directors resigning from the company have to give notice of one month or, with the permission of the directors earlier, however it is proposed that this be amended so that the resignation of a director is effective immediately on receipt of such notice in writing.

Notice of annual general meeting *continued*

6.5 Ordinary resolution number 1: Control of authorised but unissued shares

"Resolved that, subject to the requirements of the Companies Act, and the JSE, and without detracting from any specific or general authority granted for the issue of shares by the company, the directors be and are hereby authorised to allot and issue the unissued "A" shares and "B" shares in the authorised capital of the company:

- to such person(s) and upon such terms and conditions as the directors may determine;
- pursuant to an issue for cash duly authorised by a general meeting of members; or as the consideration for the acquisition by the company or any of its subsidiaries of immovable property, or for shares in and/or loan accounts against or debentures in companies owning immovable property;
- provided that the directors are not authorised to issue more "A" shares and "B" shares respectively than such number of "A" shares and "B" shares that constitute 10% of the number of "A" shares and "B" shares in the company's unissued share capital as at the date of the passing of this resolution (the determination of which, shall exclude any issue of shares approved by any specific general authority granted by shareholders); or pursuant to a rights offer;
- provided that each "A" share is indivisibly linked to one "A" debenture and that each "B" share is indivisibly linked to one "B" debenture, such authority to expire at the next annual general meeting of the company."

6.6 Ordinary resolution number 2: Issue of shares for cash

"Resolved that the directors be and they are hereby authorised, until this authority lapses at the next annual general meeting of the company, provided that this authority shall not extend beyond 15 months from the date of this annual general meeting, to allot and issue "A" shares and "B" shares for cash, subject to the listings requirements of the JSE and the Companies Act on the following basis:

- a) each "A" share shall be linked to one "A" debenture of R9,40 and each "B" share shall be linked to one "B" debenture of R9,40;
- b) the allotment and issue of shares for cash shall be made only to persons qualifying as public shareholders as defined in the listings requirements of the JSE; [5.52(b)]
- c) the number of "A" shares or "B" shares, as the case may be, issued for cash shall not in aggregate in any one financial year of the company exceed 10% of the company's issued shares of the relevant class (or such other percentage permitted from time to time by the JSE for issues for cash). The number of "A" shares and "B" shares which may be issued for cash shall be based on the number of shares of the relevant class in issue at the date of the application, aggregated (where applicable) with any shares in the relevant class that may be issued in future arising from the conversion of option/convertible securities, less any shares of the relevant class issued, or to be issued in future arising from options/convertible securities issued, by the company during the current financial year, provided that any shares of the relevant class to be issued for cash pursuant to a rights issue (which has been announced and is irrevocable and fully underwritten) or acquisition (concluded and final terms announced) may be included as though they were shares of the relevant class in issue at the date of application; [5.52(c)(i) & (iii)]
- d) the maximum discount at which A-linked units or B-linked units, as the case may be, may be issued in terms of this authority is 10% (or such other percentage as specified by the listings requirements of the JSE) of the weighted average trade price on the JSE of the relevant linked units over 30 business days prior to the date on which the price of the issue is determined or agreed by the directors of the company; [5.52(d)]
- e) the company shall, after the company has issued shares of the relevant class as part of an issue of linked units for cash which represent, on a cumulative basis within a financial year, 5% or more of the number of shares of the relevant class in issue prior to the issue, publish an announcement containing full details of the issue (including the number of linked units issued, the average discount to the weighted average traded price of the linked units over the 30 days prior to the date that the price was determined

and the effect of the issue on the net asset value, earnings per linked unit and headline earnings per linked unit, or any other announcements(s) that may be required in such regard in terms of the JSE listings requirements which may be applicable from time to time; [11.22]

- f) the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue. [5.52(a)]

In terms of the JSE listings requirements, a 75% majority of votes cast by shareholders present or represented by proxy at the annual general meeting must be cast in favour of ordinary resolution number 2 for it to be approved.

6.7 Ordinary resolution number 3: Signature of documentation

"Resolved that any director of the company or the company secretary be and is hereby authorised on behalf of the company to sign any documents and do all such things as may be necessary in order to give effect to the above resolutions."

7. To transact any other business as may be transacted at an annual general meeting.

Voting and proxies

A member entitled to attend and vote at the annual meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company. For the convenience of registered members of the company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those shareholders who are:

- holding shares in certificated form; or
- recorded on sub-register in dematerialised electronic form with "own name" registration.

All other beneficial owners who have dematerialised their ordinary shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with the necessary Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker. These members must not use a form of proxy.

The transfer secretaries of the company, namely Computershare Investor Services 2004 (Proprietary) Limited, must receive forms of proxy by no later than 10:00 on Wednesday, 31 October 2007. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting should the shareholder decide to do so.



By order of the board

Hospitality Property Fund Managers (Proprietary) Limited

Secretaries

29 August 2007

Shareholders' diary

Event	Date
Financial year-end	30 June
Annual general meeting	2 November 2007
Announcement of interim results (published and posted)	February
Announcement of annual results (published)	August
Annual report posted to unitholders	September

Distribution timetable	Date
<i>Distribution No. 3 for the year ended 30 June 2007</i>	
Declaration date	29 August 2007
Last date to trade cum interest	14 September 2007
Linked units will trade ex interest	17 September 2007
Record date	21 September 2007
Payment date of interest distribution	25 September 2007

<i>Distribution No. 4 for the six months ending 31 December 2007</i>	
(Expected dates)	
Declaration date	20 February 2008
Last date to trade cum interest	7 March 2008
Linked units will trade ex interest	10 March 2008
Record date	14 March 2008
Payment date of interest distribution	17 March 2008

Proxy form

Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)

(Registration number: 2005/014211/06)

Share code for A-linked units: HPA

ISIN for A-linked units: ZAE000076790

Share code of B-linked units: HPB

ISIN for B-linked units: ZAE000076808

('Hospitality' or 'the company')

THIS FORM OF PROXY IS ONLY FOR USE BY:

- registered members who have not yet dematerialised their Hospitality linked units;
- registered members who have already dematerialised their Hospitality linked units and are registered in their own names in the fund's sub-register.

For completion by the aforesaid registered members of Hospitality who are unable to attend the 2007 annual general meeting of the company to be held at the registered office of the company, 3 on Glenhove, corner Glenhove Road and Tottenham Avenue, Melrose Estate, Johannesburg, 2196 on Friday, 2 November 2007 at 10:00 ('the annual general meeting').

I/We (name/s in block letters)

of (address)

being the registered holder/s of A-linked units/B-linked units in Hospitality, hereby appoint

1. _____ or failing him/her
2. _____ or failing him/her
3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the annual general meeting of the company and at any adjournment thereof, as follows:

Ordinary business	For	Against	Abstain
1. Adoption of 2007 annual financial statements			
2. Re-election of Mr W C Ross			
3. Auditors' remuneration			
4. To approve the non-executive directors' fees for 2008			
5. Re-appointment of KPMG Inc. as auditors			
6.1 Special resolution number 1: Repurchase of shares			
6.2 Special resolution number 2: Amendment of articles of association			
6.3 Special resolution number 3: Amendment of articles of association			
6.4 Special resolution number 4: Amendment of articles of association			
6.5 Ordinary resolution number 1: control of authorised but unissued shares			
6.6 Ordinary resolution number 2: issue of shares for cash			
6.7 Ordinary resolution number 3: authority for directors to sign documents			

Signed at _____ on _____ 2007

Signature(s)

Assisted by (where applicable)

Please read notes overleaf

Notes to the form of proxy

1. Only shareholders who are registered in the register of the company under their own name may complete a form of proxy or attend the general meeting. This includes members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration. A proxy need not be a member of the company.
2. Dematerialised shareholders who have not elected "own name" registration in the register of the company through a Central Securities Depository Participant ("CSDP") and who wish to attend the annual general meeting, must instruct the CSDP or broker to provide them with the necessary authority to attend.
3. Dematerialised shareholders who have not elected "own name" registration in the register of the company through a CSDP and who are unable to attend, but wish to vote at the annual general meeting, must timeously provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between that shareholder and the CSDP or broker.
4. The completion and lodging of this form will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed, should such member wish to do so.
5. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the company or waived by the chairman of the annual general meeting.
7. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
8. A company or any other body corporate wishing to vote on a show of hands should ensure that the resolution required by section 188 of the Companies Act, 1973 as amended to authorise a representative to vote, is passed by its directors or governing body. Resolutions authorising representatives in terms of section 188 of the Act must be received by the company's transfer secretaries no later than 48 hours prior to the time fixed for this meeting.
9. Where there are joint members of shares any one of such persons may vote at any meeting in respect of such shares as if he/she were solely entitled thereto; but if more than one of such joint holders be present or represented at the meeting, that one of the said persons whose name appears first in the register of members of such shares or his/her proxy, as the case may be, shall alone be entitled to vote in respect thereof.
10. On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll a member who is present in person or represented by a proxy shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the company.
11. The chairman of the meeting may reject or accept any proxy which is completed and/or received other than in accordance with the instructions, provided that he/she shall not accept a proxy unless he/she is satisfied as to the matter in which a shareholder wishes to vote.
12. This form of proxy must be lodged with or posted or faxed to the transfer secretaries, Computershare Investor Services 2004 (Pty) Ltd, at 70 Marshall Street, Johannesburg or PO Box 61051, Marshalltown, 2107) or faxed to +27(11) 688 5238 no later than 10:00 on Wednesday, 31 October 2007.

Three (3) members personally present (or if the member is a body corporate the body corporate must be represented) and entitled to vote shall be a quorum for the annual general meeting.

Management and administration

1. FUND AND ASSET MANAGER

Hospitality Property Fund Managers (Pty) Ltd (Hospitality Manco)

A specialist asset management team with commensurate skills administers and manages the Fund through Hospitality Manco. The asset management team comprises specialists in the hospitality and property industries and have an abundance of experience in all facets of the sectors.

Non-performance clauses are in place for variable and C-Corp lease agreements and underlying contractual management arrangements. As a result, the asset managers are sufficiently empowered to monitor performance and ensure that corrective action is taken when required. The lease agreements allow for rental deposits and cancellation in the event of non-payment.

Approximately 58% of the Fund's revenue is based on fixed leases with operators while an estimated 34% of the Fund's revenue is derived through C-Corp lease agreements. The underlying management contracts for these leases allow for the approval of budgets, capital expenditure, senior management appointments and policies. In addition, the management fees payable to the management companies engaged in operating the hotels are highly incentive based and allow for cancellation in the event of underperformance. The remaining 8% of the Fund's revenue is earned from variable lease agreements.

Analysis of shareholders

The shareholders of Hospitality Manco are Grapnel Property Asset Managers (Pty) Ltd (Grapnel) (53,4%) and Hotel Tourism and Leisure Asset Management (Pty) Ltd (HTLAM) (46,6%).

Directors and officers

The executive directors of Hospitality Manco are Messrs Y Aminzadeh and G A Nelson.

Terms of the contract

Salient features of the Hospitality Manco agreement:

The period of the Hospitality Manco appointment shall be an indefinite period, terminable by Hospitality or Hospitality Manco on six years' written notice. Notwithstanding this, Hospitality may give six months' written notice of termination provided, however, that it compensates Hospitality Manco for such early termination and that the appointment may not be terminated within the first six years. However, in accordance with the Listings Requirements, the linked unitholders may at any time pass an ordinary resolution requiring Hospitality to terminate the Hospitality Manco agreement. If Hospitality terminates the Hospitality Manco agreement other than due to a material breach by Hospitality Manco, Hospitality shall pay to Hospitality Manco compensation based on the value of Hospitality Manco to be calculated as follows:

- Hospitality Manco's cashflow from operations (excluding brokerage fees and listing expenses paid to Hospitality Manco on the listing of Hospitality on the JSE and management fees paid to the shareholders of Hospitality Manco) for the previous 12 months escalated by CPIX (for the previous 12 months) for a period of six years, discounted by the average yield of the fund over the previous 12 months which cashflow from operations for each financial year is calculated as the profit before taxation for Hospitality Manco adjusted for non-cashflow items and changes to working capital less taxation paid; plus

Management and administration continued

- the reasonably anticipated costs to Hospitality Manco in terminating ongoing contracts for staff, premises, equipment and any other similar contractual costs and the amount owing in respect of shareholders' loans. Hospitality has an option to purchase the shares and claims in Hospitality Manco after three years based on the value of Hospitality Manco which would be calculated using the above calculation. Hospitality Manco shareholders have a put option to the Fund in the event that Hospitality disposes of a material portion (greater than 50% by value) of its portfolio on the same basis.

Scope of the asset manager's duties

Hospitality Manco manages the Fund and the Hospitality property portfolio on behalf of the Fund, including the Fund management, asset management, general management, administrative and secretarial work, including, but not limited to all acquisitions, development and disposals of the properties including negotiations and finalisation of the agreements, the appointment, removal and replacement of property managers, the formulation of investment management and letting strategies and management systems and the payment of all distributions and dividends to linked unitholders. Further to this, in terms of the Hospitality Manco agreement, Hospitality Manco may not provide any of the above mentioned services to any third party during the currency of the Manco agreement, without the prior written consent of Hospitality.

Remuneration in terms of the agreement

Hospitality Manco is remunerated as follows:

- a monthly fee equivalent to 1/12th of 1% of the monthly aggregate of the average daily closing price of the linked units on the JSE, multiplied by the number of linked units in issue plus 1/12th of 1% of the monthly aggregate of the loans contracted by the Fund;
- a fee equivalent to 2% of the acquisition price of any property or linked units or shares in an acquired company;
- a development fee of 2% of the total development costs on any developments or refurbishments.

2. TENANTS

C-CORP LEASES

Majomatic 194 (Pty) Ltd (C-Corp) is a hotel operating company which leases hotels exclusively from the Fund. C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being variable rental equivalent to 90% of the hotels' earnings before interest, tax, depreciation and amortisation (EBITDA) after deducting the fixed lease portion.

The shareholders of C-Corp are Grapnel (53,4%) and HTLAM (46,6%).

C-Corp has appointed the following companies to manage the hotels on its behalf:

Protea Hotels

Protea Hotels is Africa's largest hotel group by number of properties, with some 126 hotels in 12 countries falling within the Protea Hotels stable. The company was founded in 1984 and has grown its portfolio and brands since. At the 2005 and 2006 World Travel Awards, Protea Hotels were voted best hotel brand in Africa by the world's travel industry. The company concluded a BEE transaction in 2005, which resulted in a 54% BEE

shareholding in the company. It was announced in March 2007 that the Stella Group from Australia was set to acquire Protea Hotels. The Stella Group is the largest integrated travel company in Australia and New Zealand, with some 15 000 hotel rooms under management and 1 400 retail and travel outlets worldwide.

Protea Hotels manages the Protea Marine Port Elizabeth, Protea Richards Bay and Protea Victoria Junction for the Fund.

Hospitality Hotel Management Company (HHMC)

HHMC was set up upon the listing of the Fund to manage The Rosebank Hotel as it was to undergo substantial repositioning. It is pleasing to report that The Rosebank Hotel has since shown exceptional performance. Advantage was taken of the opportunity presented in other properties in the Fund to appoint HHMC as managers of these hotels.

HHMC manages The Mount Grace Country House and Spa, The Rosebank Hotel, The Winkler Hotel, The Richards Hotel, The Hazyview Hotel, The Imperial Hotel and The Bayshore Inn. Once the Hluhluwe Hotel & Safaris is transferred to the Fund, HHMC will manage eight hotels.

HHMC is owned by Grapnel (53,4%) and HTLAM (46,6%). The management team is headed by Andrew Rogers, with substantial supporting skills acquired in areas such as sales and marketing, finance, food and beverage, information technology, engineering and analyses.

VARIABLE LEASES

City Lodge Hotels

The JSE listed City Lodge Hotels Limited ('City Lodge') is one of South Africa's leading hotel groups, with 40 hotels under management, predominantly in the limited service segment. The group's hotel brands include Road Lodge, Town Lodge, City Lodge and Courtyard. Hospitality co-owns five Courtyard properties in its portfolio with City Lodge. The Courtyards in Arcadia, Cape Town and Eastgate are fully owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

FIXED LEASES

The Rezidor Hotel Group

The Rezidor Hotel Group is listed on the Brussels stock exchange and is one of Europe's leading hotel management companies. The group's portfolio includes some 280 hotels in operation and under development with approximately 60 000 hotel rooms. The group manages and franchises under the Radisson, Park Inn, Regent, Country Inn and Missoni brands.

The Fund's tenant at the Radisson Hotel Waterfront and the Park Inn Greenmarket Square, Queensgate Holdings (and subsidiaries), have entered into a management agreements in respect of the properties with the Rezidor Hotel Group.

Management and administration continued

Premier Hotels & Resorts International

The King David Hotel in East London is managed by Premier Hotels & Resorts International on behalf of the tenant, which manages five hotels in South Africa, the majority of which are situated in the Eastern Cape. The management company has been managing the hotel since the listing of the Fund, although the hotel was rebranded in mid-2006 (previously Protea Hotel East London).

Champagne Sports Resort

The tenant and management company of Champagne Sports Resort has been involved with the development and operations of the resort since inception and the company was the main seller entity to the Fund upon listing. The management company also manages the timeshare component of the resort on behalf of the Champagne Shareblock Company.

Birchwood Hotel Management Company

The tenant and management company at the Birchwood Executive Hotel & Conference Centre is the Birchwood Hotel Management Company. The same executive team has managed the property since its inception and has continued operations through its nine development phases. The exclusive focus of the management company is the management of the Birchwood.

Kopanong Hotel and Conference Centre

The tenant and hotel management company at Kopanong Hotel & Conference Centre has been managing and operating the hotel since the listing of the Fund. The company also manages the rental pool of the sectional title units at the hotel.

CORPORATE INFORMATION

SECRETARIES AND MANAGERS

Hospitality Property Fund Managers (Pty) Ltd
3 on Glenhove
Cnr Glenhove Road and Tottenham Avenue
Melrose Estate
Johannesburg
(PO Box 522195, Saxonwold, 2132)
Tel: +27 11 775 6535
Fax: +27 11 775 6425

REGISTERED OFFICE

3 on Glenhove
Cnr Glenhove Road and Tottenham Avenue
Melrose Estate
Johannesburg
(PO Box 522195, Saxonwold, 2132)

BANKERS

Absa Bank Limited
Palazzo Towers West
Monte Casino Boulevard
Fourways
(PO Box 78701, Sandton, 2146)

INDEPENDENT AUDITORS

KPMG Inc.
KPMG Crescent
85 Empire Road
Parktown, Johannesburg
(Private Bag 9, Parkview, 2122)

SPONSORS

Rand Merchant Bank, a division of FirstRand Bank Limited
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
(PO Box 786273, Sandton, 2146)

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Ltd
Ground Floor
70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

Hospitality
PROPERTY FUND