

*Hospitality*  
PROPERTY FUND



*Annual Report 2008*

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*Protea Victoria Junction Hotel*



# Profile and financial highlights



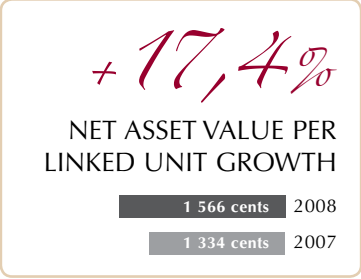
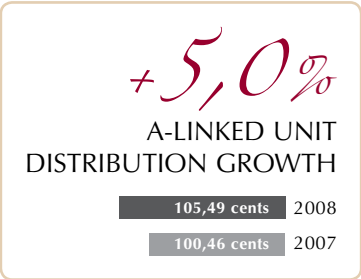
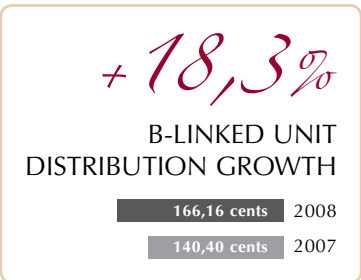
Hospitality Property Fund Limited ('Hospitality' or 'the Fund') is a property loan stock company, which invests exclusively in hotel and leisure properties. The Fund is a publicly traded company and was listed on the main board of the JSE Limited ('JSE') under the Financials – Real Estate sector in February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

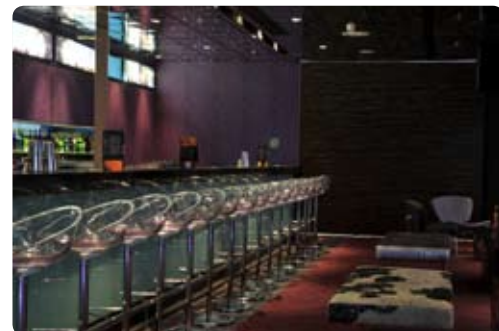
The Fund was established with the aim of offering unitholders an investment vehicle with exposure to the hospitality sector through the ownership of hotel and leisure properties. The Fund consists of investments in 22 hotel and resort properties in South Africa, and is highly diversified in terms of geographic location, star grading, fixed and variable income and market mix.

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

The Fund comprises a total of 61,6 million A-linked units and 61,6 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 2008 the properties were independently valued at R2,3 billion. The Fund has a BEE ownership component of some 22,6%.





## HIGHLIGHTS

The results achieved for the year ended 30 June 2008 again exceeded expectations. The A-linked unit distributions grew by 5% over the previous year, in line with the Fund's fixed distribution structure, whilst distributions in respect of the B-linked unit grew by 18,3% over the previous year.

Approximately one third of the Fund's earnings are derived from lease income which is linked to operational performance of the hotel properties. The high growth in distribution of the B-linked units was primarily as a result of the favourable trading conditions prevailing in the hotel and leisure industries for the period under review, benefiting rentals derived from the hotels under variable lease contracts. In addition, the comprehensive resource overlay in terms of both hotel and asset management has benefited the Fund in terms of value extraction.

As a result of the deteriorating economic environment during the latter half of the reporting period and particularly the dramatic rise in interest rates, the listed property sector reflected a decline in value of 37% from its highs in 2007 to June 2008. Hospitality's A- and B-linked units experienced similar deterioration in values of 29% and 34% respectively over this period. From this oversold position the sector has, to end August 2008, recovered by some 25%.

## INTRODUCTION

Hospitality is the only specialised listed property fund to invest solely in the hospitality and leisure sectors and provides investors with exposure to the growth potential of both the hospitality and property industries. The Fund's diversified property portfolio consists of investments in 22 hotel and resort properties throughout South Africa.

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 Limited ('JSE') under the Financials – Real Estate sector under the codes HPA and HPB respectively.

Since Hospitality's listing on the JSE in February 2006, the Fund has consistently posted results in excess of market expectations. During the reporting period Hospitality successfully completed a R500 million rights offer which increased the number of linked units in issue by 35%. In addition, the Fund acquired interests in four properties and embarked on a re-development, repositioning and refurbishment programme on certain of its properties.

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



*Radisson Hotel Waterfront*





### REVIEW OF TRADING CLIMATE

#### Economic and financial overview

From a five-year run of exceptional returns, during which the annual total return for SA listed property has averaged 30%, the current global financial credit market, has brought this to an abrupt end. During the last three quarters of the reporting period, the turbulence in global financial markets and deteriorating global economic growth negatively affected South Africa. Domestically inflation has continued to exceed the South African Reserve Bank's (SARB) target band, resulting in increases in interest rates, and the Rand depreciated some 15,5% against the US Dollar during the period. In addition, real GDP growth is forecast to have slowed to 4,5%, which compares to 5,4% for the year ended June 2007.

Falling property prices in the United States and Great Britain's housing markets and the subsequent surge in defaults of sub-prime mortgages have had a major impact on global financial markets. The resulting credit crisis has resulted in extensive writedowns by large international financial institutions and a virtual suspension of credit extension by banks even to creditworthy borrowers. Coupled with a global increase in commodity prices, in particular oil and food, inflationary pressures have grown rapidly, adding to deteriorating economic growth expectations.

Domestic financial markets have largely been shielded from the direct effects of the sub-prime mortgage turmoil, yet a significant increase in global risk aversion,

evidenced by significant foreign portfolio outflows, continued short-term inflation fears, perceived political instability and concerns surrounding the sustainability of electricity supply, have weakened the Rand considerably and reduced South Africa's economic growth forecasts.

Consumer price inflation excluding interest rates on mortgage bonds (CPIX) rose to 11,6% in June 2008, the highest ever in the 10-year history of the index, while producer price inflation rose to 16,8% during the same month. In a bid to curb rising inflation, limit potential second-round inflationary effects and reduce the level of credit extension, the SARB has consistently tightened monetary policy; raising lending rates by 250 basis points during the reporting period. The sharp decline in growth expectations appears to indicate that consumers and businesses alike are struggling to cope with tighter credit conditions, rising prices and lower business confidence.

The higher inflationary outlook coupled with increasing interest rates and a net foreign selling of bonds, resulted in a significant rise in bond yields. In line with this re-rating of the bond market listed property prices fell, resulting in a substantial diminution in value.

The short-term economic outlook remains uncertain, however, with substantial infrastructure investment replacing consumption as the engine of growth, it is likely that prospects for the domestic economy will largely remain positive. The level of future economic



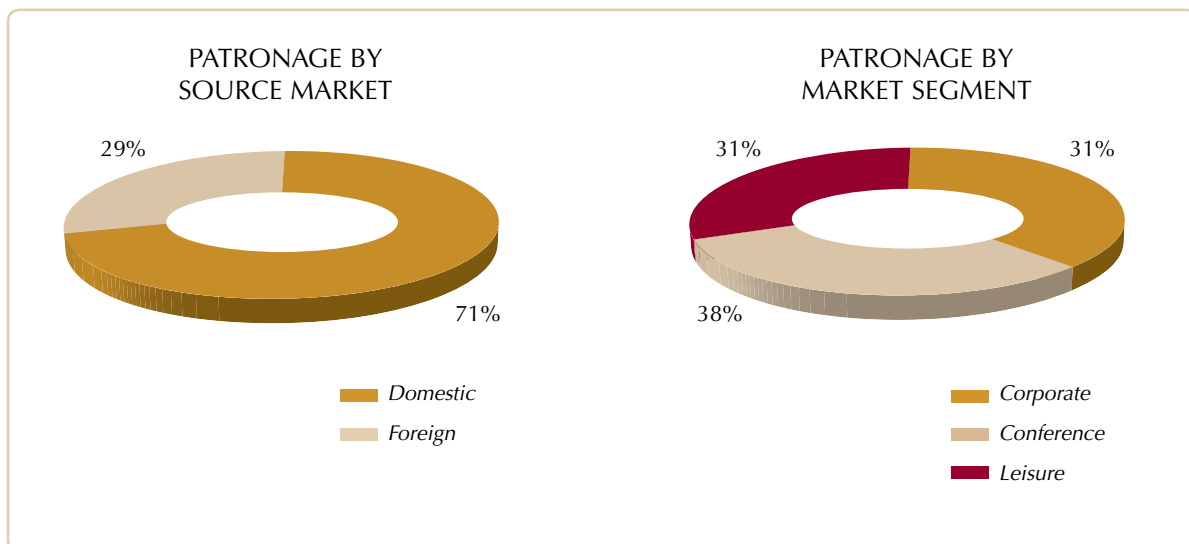
growth, however, is largely dependent on how both the public and private sectors deal with structural obstacles and the limiting effect on the economy of the electricity supply constraints.

If the market's expectation of inflation peaking in the third-quarter of 2008 is correct and there is sustained evidence that inflation is under control, then the upward trend in interest rates is likely to reverse. Post the year end, there are early signs of this trend emerging with the SARB's recent decision to hold interest rates steady and the listed property sector having staged a recovery of some 27% in value. The GDP growth forecast for the 2009 financial year is 2,4%, whilst this is forecast to improve to 3,7% in 2010.

### Hospitality sector overview

The Fund has a highly diverse source market patronage base, with some 71% of nights being sold to domestic guests and the remaining 29% to foreign guests. In terms of patronage by target market segment, the room nights sold are approximately evenly split between corporate, conference and leisure guests.

According to the United Nations World Tourism Organisation, international tourist arrivals grew by 6,6% in 2007, which compares favourably to the 5,4% growth achieved in 2006. International tourism receipts in US Dollar terms grew by 5,6% in 2007, which was lower than the 8,5% recorded in 2006. Despite higher oil prices, troubled housing markets,





inflationary pressures and other global economic challenges, worldwide tourist arrivals for the four months to April 2008 grew by 5,0% over the same period in 2007. Growth in arrivals for the remainder of the year is likely to reduce somewhat, but it is still expected to be between 3,0% to 5,0% in 2008.

Foreign tourist arrivals growth in South Africa slowed in 2007 from a stellar 2006, although increases continued to be significantly in excess of global arrivals growth with an 8,2% increase in 2007, compared to growth in arrivals of 13,0% in 2006. Arrivals growth from mainland Africa decreased from 17% in 2006 to 9% in 2007, whilst overseas arrivals growth reduced from 7,2% to 4,8%. According to the latest figures published by Statistics South Africa, arrivals grew by 6,5% for the year to April 2008, with African arrivals growing by 5,7% and overseas arrivals by 7,7%.

Foreign leisure tourism in South Africa remains seasonal, with summer months attracting more overseas tourist arrivals. During the coming two years significant demand drivers are likely to increase foreign leisure demand in traditional low demand seasons. In 2009 the Confederations Cup and the British Lions Tour will be held in June and in 2010 the FIFA World Cup will be held in June and July. Visitors to these events often include pre- and post-event tours which increases hotel room night demand during the periods around the event. Potential constraints in the growth in foreign tourist arrivals in South Africa include perceived regional geo-political tensions, increases in transport costs, a slowdown in global economic growth, continued high

perceived levels of crime in South Africa and increased competition from other long-haul destinations.

The domestic corporate market continues to drive the majority of the demand for room nights in the lower and mid-scale sectors of the hospitality industry. This segment appears to be most demand inelastic due to the necessity to continue business activities even during periods of low economic growth. The conference sector in South Africa further produces a substantial portion of room night sales in the hotel industry, with both the government and private sector conducting numerous workshops, meetings, conferences and functions. Whilst the growth in demand in the corporate and conference market segments may slow down somewhat during the coming year, these segments are likely to remain robust.

The domestic leisure tourism segment appeared to be under some pressure during the latter half of the reporting period due to a squeeze on disposable income as a result of high inflation and interest rates. As a result, growth in demand in this segment may slow further during the next financial year. In the medium to long term this market segment should grow significantly in excess of economic growth due to increasing participation of leisure travellers in the formal hotel sector from a growing upwardly mobile middle class.

Growth in new hotel supply in South Africa has remained low during the past several years, which,

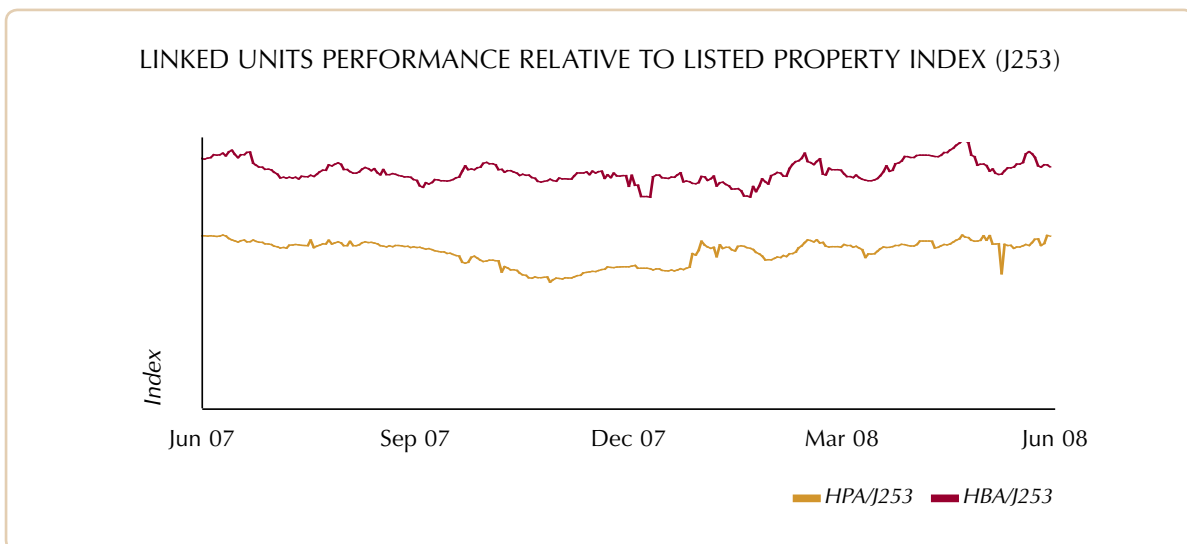


paired with significant increases in demand has resulted in substantial growth in occupancy rates and average daily rates achieved. During the coming two years a number of hotel developments are due to be completed, which will result in a softening in occupancy levels. Nevertheless, given current hotel development costs, these new hotels are likely to require higher room rates to provide suitable investment returns. In the medium term: growth in development costs, limited suitably zoned and services sites, as well as energy supply constraints should ensure that the growth in supply in the hotel industry is constrained.

In South Africa, the hotel sector continued to record significant growth in room rates as a result of high occupancy rates and the increasing application of dynamic pricing. According to the Deloitte

HotelBenchmark, average room rates grew by 17,5% during the reporting period whilst occupancies remained largely unchanged at 72%. This resulted in a growth in revenue per available room (RevPAR) of 17,8%. The performance of hotels in Gauteng was particularly robust with RevPAR increasing by 23,5% in the province.

Although average room rate growth is unlikely to continue at levels as high as those achieved during the past two financial years, rates are likely to continue to grow in excess of inflation for the foreseeable future. Several high demand events, including the Confederations Cup, British Lions tour in 2009 and the FIFA World Cup 2010 should add further yielding opportunities.





Because of the diverse base of the Fund's patronage, in terms of both source market and target market, Hospitality is well placed to manage fluctuations in demand for hotel room nights within the portfolio. The Fund Manager has a team of dedicated analysts who continually monitor global and domestic trading climates.

### **Listed property sector overview**

During the reporting period, property fundamentals remained positive, with low vacancy levels and high rental increases ensuring that listed funds continued to release good results. Whilst some additional supply in key demand nodes is likely to come online in the short term, development activity is likely to remain constrained in the medium term due to electricity supply constraints, high construction and finance costs, and a shortage of suitably zoned and serviced land. This reduced level of supply growth is likely to benefit the current supply in the market. In addition to this, the increase in building costs has ensured that replacement costs are often higher than property valuations, indicating that additional rent adjustments are likely.

Whilst the underlying property fundamentals remained sound, the increase in bond yields as well as the downturn in the domestic financial markets resulted in a loss in capital values of the listed property funds, with the listed property sector index (J253) reducing in value by 27% during the reporting period. This reduction in capital value

has, however, created significant value in the market and the forward yields of the listed funds are attractive.

Despite high finance costs and a more challenging economic climate, the sector is expected to continue to release positive results, with the sector forecast to grow distributions by 8% to 12% during the next financial year.

### **Results**

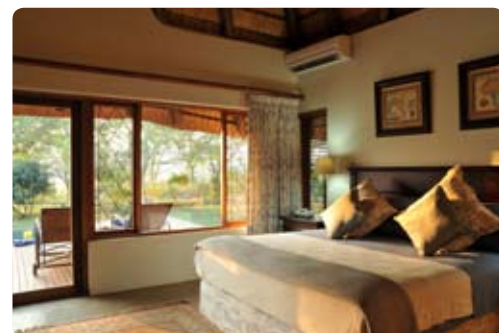
Distribution per A-linked unit amounted to 105,49 cents for the year ended June 2008, which was per the company's distribution policy for this unit where year-on-year growth is presently capped at 5%. The B-linked unit distribution equated to 166,16 cents, which represents growth of 18,3% over the previous year. The growth in distributions was primarily as a result of the strong operational performance of the hotels under variable lease structures.

The Fund's linked unit prices, in line with the listed property sector, experienced a substantial decline in value due to the deteriorating interest rate environment and subsequent increase in bond yields. The A-linked unit price weakened from a high of 1 501 cents in July 2007 to 1 065 cents at 30 June 2008 with the B-linked unit price reflecting a similar decline from 2 260 cents in October 2007 to 1 490 cents. The consequent historic yields on the A- and B-linked units as at year end were 9,9% and 11,2%, respectively.



*The Rosebank*





The following table reflects the results for the year ended June 2008 compared to 2007.

<b>Year end June</b>	<b>2008 Actual (R'000)</b>	<b>2007 Actual (R'000)</b>	<b>Variance %</b>
Contractual rental income	196 230	138 556	41,6
Fund expenses	(26 851)	(18 921)	41,9
Net finance costs	(10 345)	(24 206)	(57,3)
Profit before debenture interest	159 034	95 429	66,7
Recoupment of debenture interest	8 278	3 356	146,7
Debenture interest	(167 312)	(98 785)	69,4
Distribution – A-linked unit	(64 970)	(41 177)	57,8
Distribution – B-linked unit	(102 342)	(57 608)	77,7
Distribution – A-linked unit (cents)	105,49	100,46	5,0
Distribution – B-linked unit (cents)	166,16	140,40	18,3

## Property portfolio

At year end, the Fund's property portfolio comprised interests in 22 hotel and resort properties in South Africa. The properties can be categorised into three lease segments, namely; fixed lease properties, C-Corp lease properties and variable lease properties.

The fixed lease segment includes interests in six properties, which accounted for 53% of total rental income for the reporting period. These properties are the Birchwood Hotel & OR Tambo 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 Hotel & OR Tambo Conference Centre further includes a turnover rental component.

There are a total of 11 C-Corp lease properties, which contributed 41% of total rental income for the reporting period (refer to note 2 on page 81 for further details on C-Corp agreements). The C-Corp lease properties are: The Bayshore Inn, Hluhluwe Hotel & Safaris, The Imperial Hotel, Mount Grace Country House & Spa, Protea Hotel Marine, Protea Hotel Richards Bay, Protea Hotel Victoria Junction, The Hazyview Hotel, The Richards Hotel, The Rosebank and The Winkler Hotel. C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being a variable 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.

The variable lease category comprises interests in five Courtyard hotels, situated in Arcadia, Cape Town, Eastgate, Rosebank and Sandton. The tenant



of these hotels is City Lodge Hotels Limited and income derived from the properties is based directly on EBITDA. For the reporting period, these properties contributed 7% to total rental income.

The average daily room rate achieved for the portfolio during the period was R708 at a room occupancy rate of 68%, which equates to a revenue per available room of R481. Throughout the period the properties were fully let.

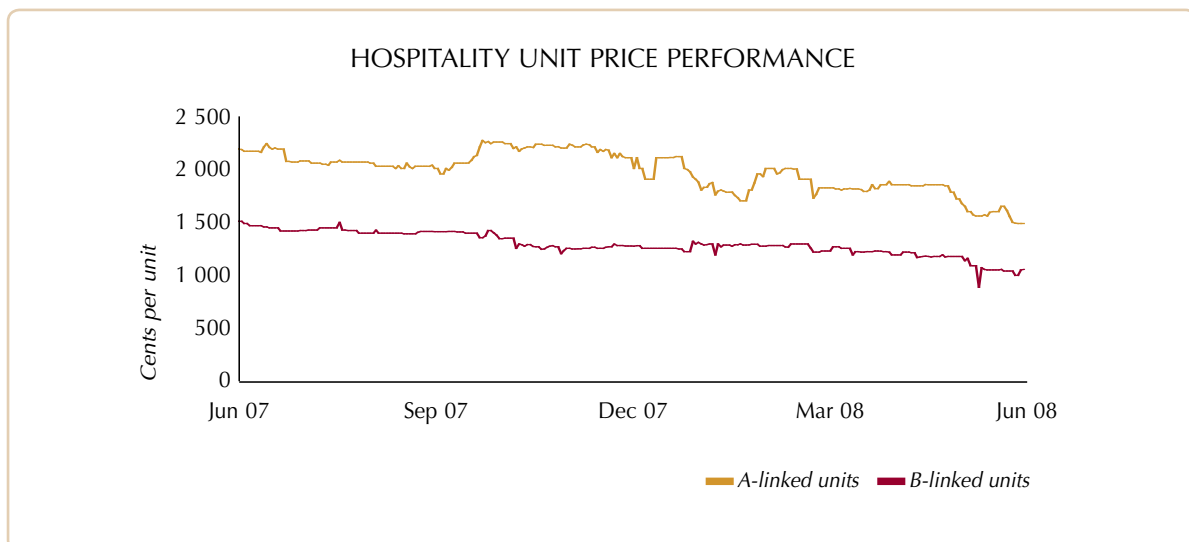
The historic aggregate property yield on book value at the end of the reporting period was 10,1%, whilst the historic yield on the year end property portfolio valuation was 8,7%. The historic trading yields at year end were 9,9% and 11,2% for the A- and B-linked units respectively.

### Property valuation and net asset value

As at 30 June, Hospitality's property portfolio was independently valued at R2,3 billion, which represents an increase of R640 million over the previous reporting period. The growth in portfolio value was largely due to new acquisitions valued at R341 million and a revaluation surplus of the existing property portfolio of R250 million, which represents year-on-year growth of 15%.

The net asset value (NAV) per linked unit as at year end was 1 562 cents per linked unit, which equates to an increase of 17% in NAV per linked unit from June 2007.

At year end, the combined units traded at an 18,2% discount to NAV, which was in line with the listed





property sector. This discount compares to a 5% premium to NAV at the end of the previous reporting period. Post year end the linked unit prices recovered substantially, yet in terms of NAV the linked units were still trading substantially below the premium recorded at the previous year end.

### **Acquisitions**

During the reporting period, the Fund acquired interests in four properties for a total consideration of R260 million. These properties were independently valued at R312 million on acquisition, representing a valuation surplus of 20%. These acquisitions were subsequently revalued to R341 million at year end. The acquisitions included: an extension to the Birchwood Hotel & OR Tambo Conference Centre, the Hluhluwe Hotel & Safaris, the remaining 32% share in the Park Inn Greenmarket Square, the remaining 35% shareholding in 90 units at the Radisson Hotel Waterfront and the ONEwellness Spa located at the Radisson Hotel Waterfront. The acquisitions are forecast to be growth enhancing for the Fund.

Subsequent to year end, Hospitality entered into an agreement to acquire the 4-star hotel known as the "Holiday Inn Sandton – Rivonia Road" adjacent to the Village Walk Shopping Centre. The total purchase consideration is R400 million and the property was independently valued at R470 million, representing a 17,5% valuation surplus on acquisition. The 301-key hotel commenced trading

in September 2008. The property is likely to be transferred to the Fund during the second quarter of the coming financial year.

The acquisition is being funded by way of the Fund's existing debt facilities and has been structured in such a manner that the debt obligations are matched to the initial anticipated rental income profile from the property. This should minimise any potential impairment in the Fund's earnings in the short term and ensure that the investment is growth enhancing in the longer term.

### **Refurbishments, upgrades and expansions**

Hospitality has committed significant funds to expanding, re-developing and refurbishing a number of properties in the portfolio to strategically position these for maximum long-term growth. The combined capital value of these projects is approximately R500 million, the majority of which will be completed during the coming financial year.

The redevelopment of The Rosebank Hotel is nearing final completion and the hotel commenced trading on 19 August 2008. Total capital costs incurred in the development project, including the construction of a Seven Colours branded spa, are approximately R305 million. The Mount Grace Country House & Spa is currently being expanded and refurbished at an estimated capital cost of R135 million, the development will be fully completed during the second half of the coming financial year.



*Birchwood Hotel & OR Tambo Conference Centre*





Other projects currently being undertaken include: the refurbishment and repositioning of The Winkler Hotel and The Bayshore Inn, and the refurbishment of The Richards Hotel and the Protea Hotel Richards Bay. Other projects currently under review are: the expansion of the Imperial Hotel, and the refurbishment of the Protea Hotel Victoria Junction, the Protea Hotel Marine and The Hazyview.

### **Investment strategy**

The Fund's investment strategy is to sustainably grow its property base through acquisitions and developments which enhance long-term unitholders' returns. The aim is further to continue to diversify the portfolio in terms of geographic location, patronage and star grading.

Aside from the aforementioned Holiday Inn Sandton transaction, the Fund has several potential property acquisitions under consideration.

### **Borrowings**

The Fund's weighted average cost of debt during the reporting period was 9,4% and the effective gearing level as at 30 June 2008 was 12,4%. During the reporting period, net finance costs reduced significantly due to the cash raised in the rights offer not being fully utilised during the financial year.

At listing the Fund entered into an interest rate swap agreement in respect of the fixed portion of its debt at an all-in-rate of 8,83%, which was due to expire

in February 2009. During the financial year the Fund restructured its borrowings by entering into various interest rate swap agreements in respect of its R553 million of debt funding, for a period of three to six years at an average all-in-rate of 10,91%.

As at 30 June 2008 the Fund had an unutilised debt facility of R312 million, with the ability to increase this facility to R615 million. The aforementioned acquisition of the Holiday Inn Sandton will be settled out of debt, which will result in an increase in debt facility utilisation and the Fund's gearing level.

### **Rights offer/units in issue**

During the second quarter of the reporting period the Fund undertook a rights offer in respect of funding requirements of R500 million. Subscriptions and applications were received for 81% of the A-linked units offered, with the balance being subscribed for by Coronation Asset Managers (Pty) Limited through an underwriting of the issue. In respect of the B-linked units, subscriptions and applications received amounted to 99,8% of the units on offer, with Sanlam Investment Management (Pty) Limited subscribing for the balance of the units by means of an underwriting commitment.

The 15 903 352 A- and 15 903 352 B-linked units issued through the rights offer resulted in an increase in units in issue of 35%. At the end of the reporting period 61 591 087 A-linked units and an identical number of B-linked units were in issue.



**Black economic empowerment**

Hospitality's black economic empowerment (BEE) partners, namely Nobuntu I, Nobuntu II and the National Empowerment Fund currently hold some 22,6% of combined linked units in issue, both through BEE structures and direct shareholding.

**Liquidity**

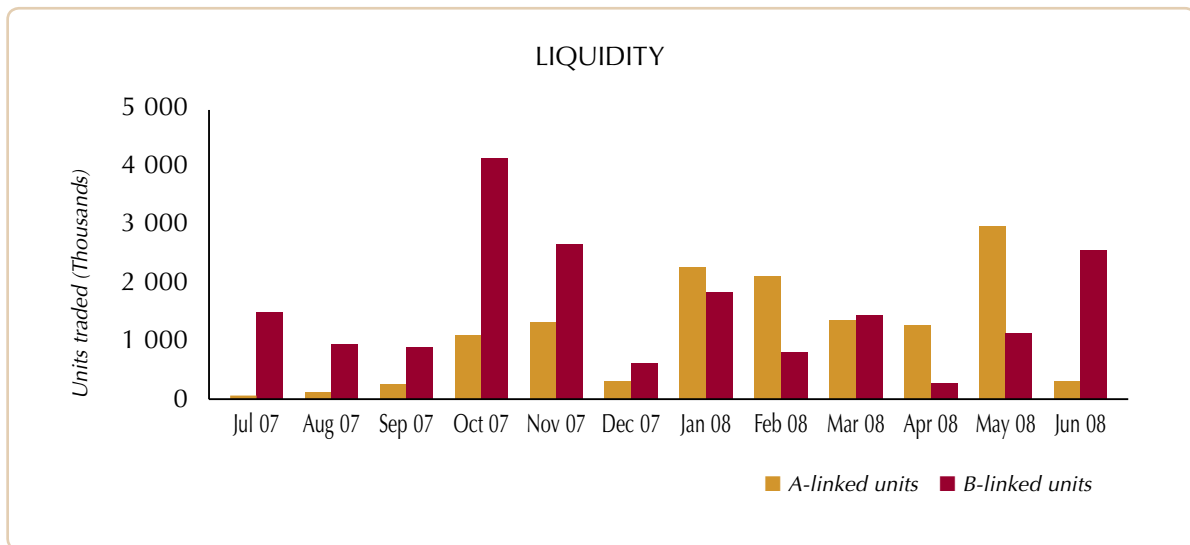
Of the Fund's units in issue, 28,4% were traded during the reporting period. The B-linked units remained more liquid, with some 33,0% of the units in issue being traded, whilst 23,7% of the A-linked units in issue were traded during the same period. The liquidity during the reporting period peaked in October 2007 as a result of the rights offer.

**Prospects**

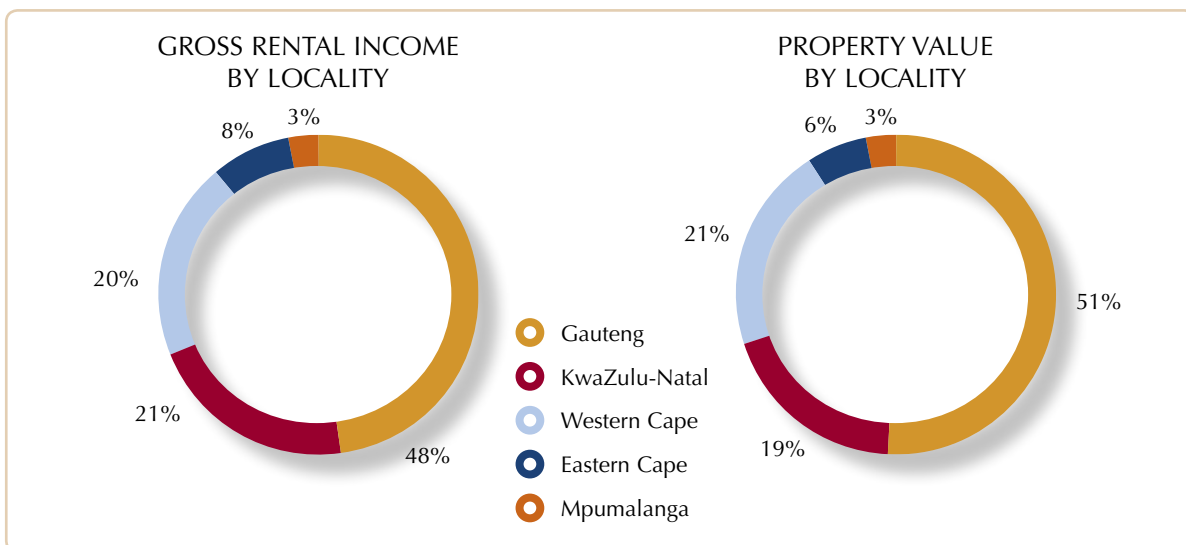
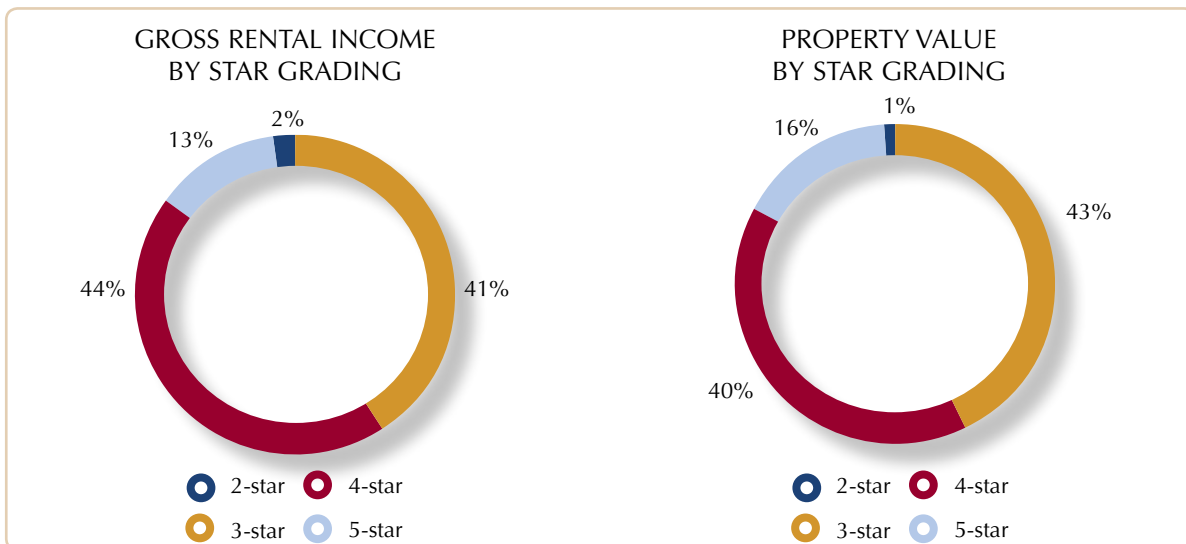
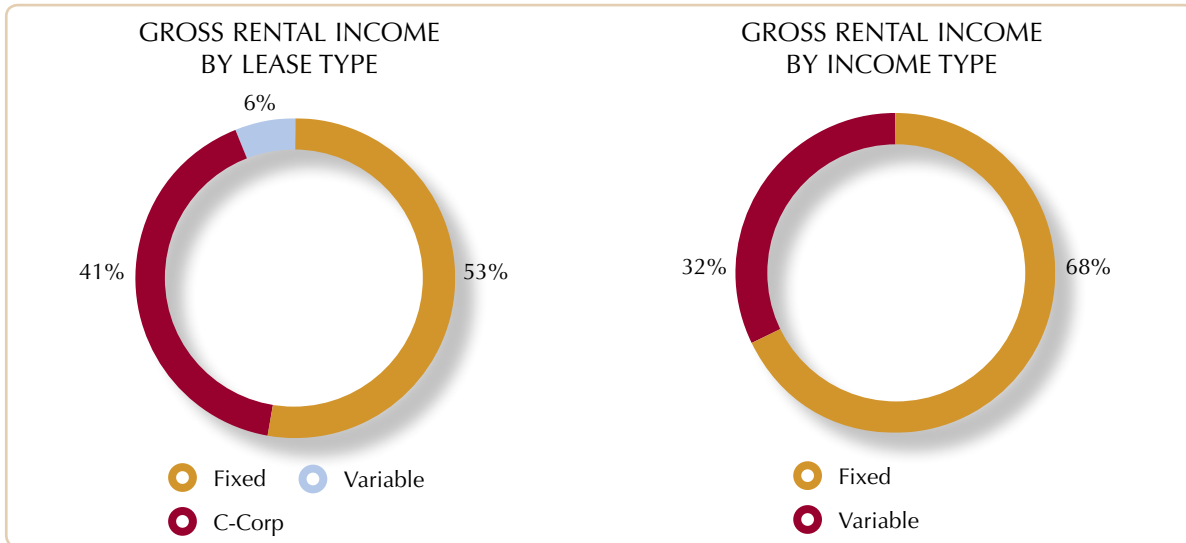
South Africa's economic growth prospects reduced significantly during the latter half of the reporting period mainly due to emerging market risk aversion,

sustained inflationary pressures, increased interest rates, concerns regarding the sustainability of the electricity supply and high levels of crime. The higher inflation and interest rate expectations in turn resulted in an augmentation in bond yields, which adversely affected the pricing of listed property stocks.

Despite the challenging trading climate, the Fund's diverse portfolio, with a high domestic corporate consumer base, appears to be well positioned to deal with a slowdown in economic growth. The foreign tourism climate remains positive, with international tourist arrivals in South Africa continuing to grow at a significantly higher rate than tourist arrivals globally. Whilst the coming financial year is likely to present challenges, the Fund appears to be well placed to benefit from the positive climate in the hotel industry as well as the repositioned and newly refurbished hotels within the portfolio.



# Salient features



# Group structure



## FUND MANAGER

Hospitality Property Fund  
Managers (Pty) Limited

HPF Properties (Pty) Limited

### C-CORP LEASES

MANAGEMENT COMPANY  
Hospitality  
Hotel Management Company

#### PROPERTY



Mount Grace  
Country House & Spa



Rosebank Hotel



The Winkler Hotel



The Richards Hotel



The Hazyview Hotel



The Imperial Hotel



The Bayshore Inn



Hluhluwe Hotel & Safaris

MANAGEMENT COMPANY  
Protea Hotels

#### PROPERTY



Protea Hotel  
Marine



Protea Victoria Junction



Protea Hotel  
Richards Bay

**VARIABLE LEASES**

**TENANT**

City Lodge Hotels

**PROPERTY**



**Courtyard**  
Rosebank (32,2% owned)



**Courtyard**  
Sandton (25,8% owned)



**Courtyard**  
Eastgate (50,0% owned)



**Courtyard**  
Arcadia (50,0% owned)



**Courtyard**  
Cape Town (50,0% owned)

**FIXED LEASES**

**PROPERTY**



**Birchwood Hotel &  
OR Tambo Conference Centre**



**Champagne Sports Resort**



**Kopanong Hotel and  
Conference Centre**



**Park Inn  
Greenmarket Square**



**Premier  
Hotel King David**



**Radisson Hotel Waterfront**  
(90 units owned and ONEwellness spa)

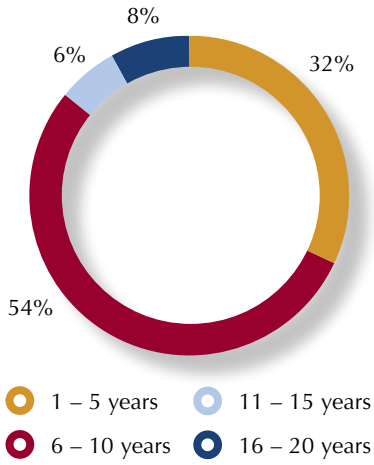
## Details of the property portfolio

Property name	Property title	HPF ownership
Birchwood Hotel & OR Tambo 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
The Hazyview Hotel	Freehold	Direct
Hluhluwe Hotel & Safaris	Freehold	Direct
The Imperial Hotel	Freehold	Direct
Kopanong Hotel and Conference Centre	Freehold	Sectional title (80% of units in the scheme)
Mount Grace Country House & Spa	Freehold	Direct
Park Inn Greenmarket Square	Freehold	Direct
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% of units in the scheme)
Radisson Hotel Waterfront	Freehold	90 sectional title units (49% of accommodation units)
The Bayshore Inn	Freehold	Direct
The Richards Hotel	Freehold	Direct
The Rosebank	Freehold	Direct
The Winkler Hotel	Freehold	Direct
Total		

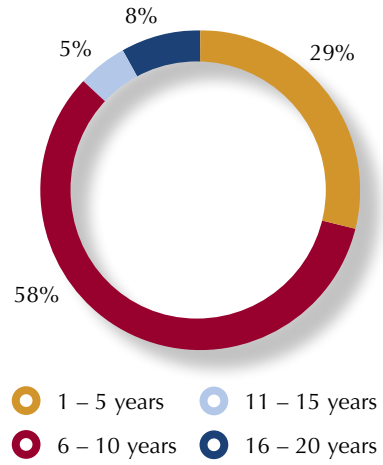
Property location	Star grading	Number of rooms	Agreement type	Book value (30 June 2008) R'000	Valuation (30 June 2008) R'000
Boksburg, Gauteng	3	450	Fixed lease	526 103	628 000
Central Berg, KwaZulu-Natal	4	112	Fixed lease agreement	170 000	188 000
Arcadia, Pretoria, Gauteng	4	69	Variable lease agreement	28 000	32 800
Mowbray, Cape Town, Western Cape	4	70	Variable lease agreement	8 500	9 600
Bruma Lake, Johannesburg, Gauteng	4	69	Variable lease agreement	26 000	27 500
Rosebank, Johannesburg, Gauteng	4	83	Variable lease agreement	21 800	24 900
Sandton, Gauteng	4	69	Variable lease agreement	18 900	19 300
Hazyview, Mpumalanga	3	87	C-Corp lease agreement	48 750	51 000
Hluhluwe, KwaZulu-Natal	3	75	C-Corp lease agreement	31 287	34 780
Pietermaritzburg, KwaZulu-Natal	3	70	C-Corp lease agreement	37 902	47 000
Benoni, Gauteng	4	252	Fixed lease agreement	97 098	113 000
Magaliesburg, Gauteng	5	81	C-Corp lease agreement	165 899	167 000
Cape Town CBD, Western Cape	3	165	Fixed lease agreement	79 362	92 000
East London, Eastern Cape	3	80	Fixed lease agreement	57 193	46 200
Port Elizabeth, Eastern Cape	4	98	C-Corp lease agreement	83 049	94 000
Richards Bay, KwaZulu-Natal	3	66	C-Corp lease agreement	47 868	53 000
Waterfront, Cape Town, Western Cape	4	172	C-Corp lease agreement	125 416	172 000
Waterfront, Cape Town, Western Cape	5	182	Fixed lease agreement	167 353	185 000
Richards Bay, KwaZulu-Natal	2	102	C-Corp lease agreement	28 090	28 000
Richards Bay, KwaZulu-Natal	4	135	C-Corp lease agreement	73 536	84 600
Rosebank, Johannesburg, Gauteng	4	318	C-Corp lease agreement	128 225	143 000
White River, Mpumalanga	3	87	C-Corp lease agreement	20 201	19 000
		2 892		1 990 532	2 259 680



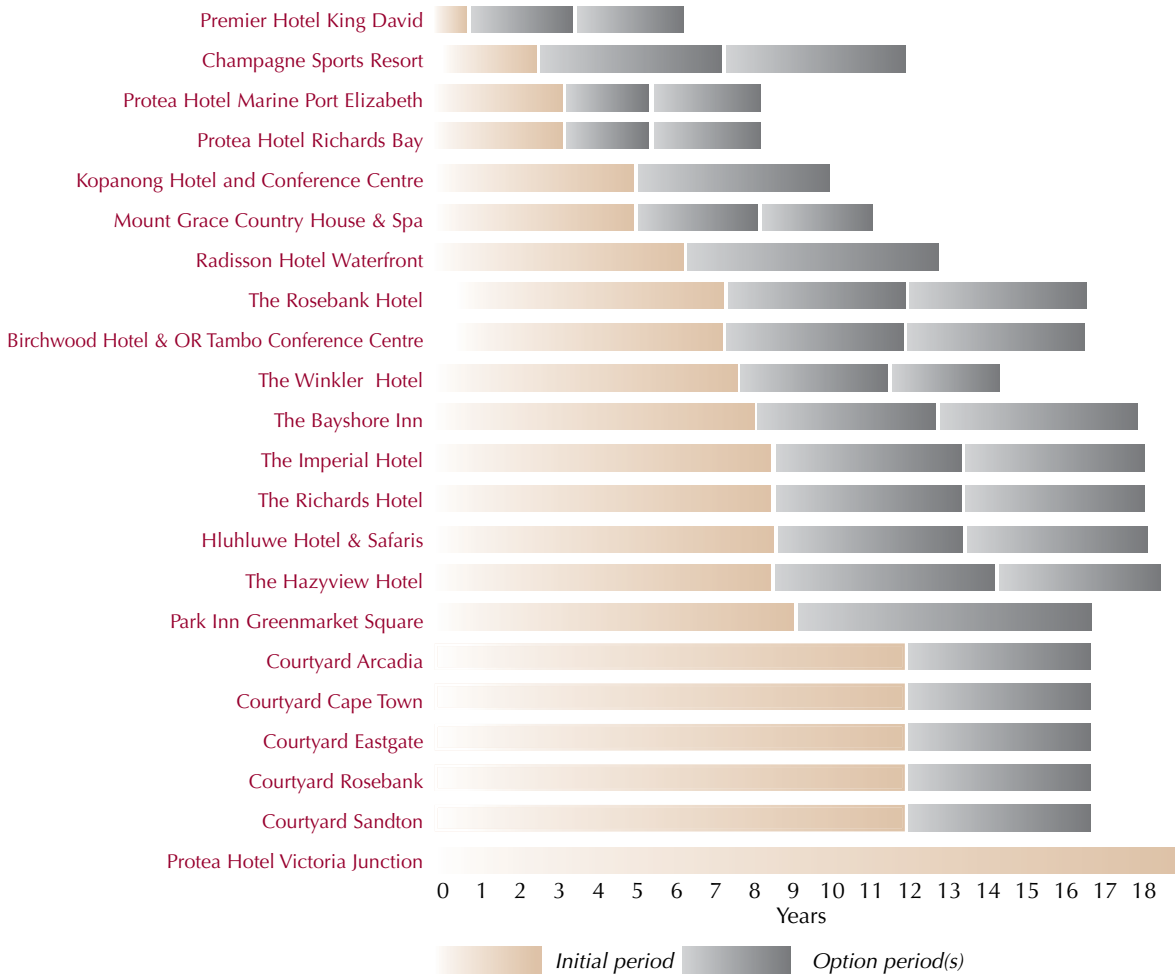
GROSS RENTAL INCOME BY LEASE EXPIRY PERIOD



PROPERTY VALUE BY LEASE EXPIRY PERIOD



LEASE EXPIRY PROFILE FOR THE PORTFOLIO



# Directorate



**TIM SEWELL**  
Chairman



**GERALD NELSON**  
Chief executive officer



**KAMIL ABDUL-KARRIM**  
Independent non-executive director



**YOUSEPH AMINZADEH**  
Deputy chief executive officer



**RIDWAAN ASMAL**  
Financial director



**BRENDA MADUMISE**  
Independent non-executive director



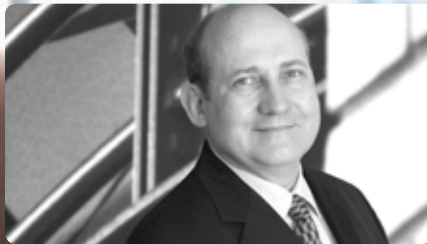
**WILLY ROSS**  
Independent non-executive director



**ANDREW ROGERS**  
Chief operating officer



**ZUKO KUBUKELI**  
Independent non-executive director



**WILLIAM MIDGLEY**  
Non-executive director

The Rosebank re-opened in August 2008, after an extensive refurbishment which has turned the hotel into a stylish and chic facility, engaging all five senses through the use of textured fabrics, signature fragrance, mood lighting, themed music and creative menus.

The upgrade involved the redesign of all 318 rooms with the lobby and entrance areas being completely recreated. Each bedroom has a Sony Bravia LCD television, 28 DStv channels, a mini-bar, a laptop friendly safe, Charlotte Rhys toiletries, Sony iPod clock radio and docking stations. The sleep experience has been enhanced with superbly designed mattresses and bed combinations to provide maximum comfort.

The hotel's project management team seriously considered environmental issues in planning the refurbishment. The bedrooms have the latest building management software, ensuring best practice in energy, water and waste management. The air conditioning units double as water heaters. Each room is equipped with a power saving device which requires a key card to be inserted on entry for power to be restored to the room.

Conference facilities were upgraded utilising the latest audio visual technology, with wireless connectivity introduced throughout the hotel. The hotel's signature fragrance is an extension of the experience changing between day and night. The daytime brings a fusion of an oceanic, woody, musky, fresh fragrance while the evening welcomes an aromatic, yet sensual scent that is fruity and woody.

The Rosebank scored a first for South Africa by establishing the first Seven Colour Spa, a famed Mauritian spa brand. A state of the art Techno Gym has also been opened. Two new restaurants have been added; The Butcher Block and Fresh – an all day dining restaurant, as well as the new Circle Bar with its own resident Mixologist concocting the most amazing cocktails yet seen in Johannesburg. Then there is the new coffee lobby bar – The Rosebank Café serves arguably the best cup of coffee in town. The Luxury accessory shop Croft & Co is a new addition to the facility as is the convenience store Twentee-for-Seven for guests who have forgotten an item at home. Most of the staff are new and after a careful selection process have undergone comprehensive training. The Fund intends to create a new offering as Johannesburg prepares to host visitors to the 2010 Soccer World Cup.

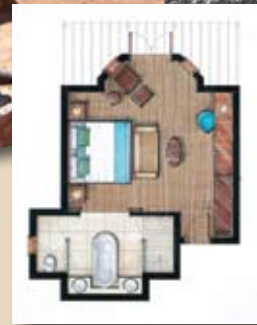


The Fund is in the process of renovating Mount Grace Country House & Spa at a cost of R135 million. The revamp of this famed retreat nestled in the magnificent Magaliesburg mountains is expected to be completed in March 2009. The first phase of the project, which includes an upgrade of the 81 existing rooms, the creation of a new reception area, a new parking lot and renovations of the resort's restaurants, was completed in September 2008.

Each bedroom now has the latest Sony Bravia LCD television and 26 DStv channels, a laptop friendly safe, a Nespresso Coffee Machine, Charlotte Rhys Toiletries, wireless connectivity and some of the most luxurious beds on the market. The new Twist all day dining restaurant serves the finest fare with the freshest ingredients on the market, and with its interactive Chef stations,

will match the expectations of the most discerning guests. The Rambling Vine fine dining restaurant will showcase the best that is to offer in respect of the constantly changing menu along with the offer of the Degustation menu which is sure to be an award winning establishment within a short period.

The walk-in wine cellar stocked with the finest SA wines will be introduced by the in-house Sommelier to assist in making your choice of wine – able to be served by the glass – a memorable one. Work on an additional 40 new bedrooms which include 12 luxury villas as well as the construction of a new 240-seater conference centre overlooking the Magaliesburg valley has started. The resort's famous spa is being upgraded and expanded, with the addition of 12 new treatment rooms, a Techno Gym equipped gym, steam room and a heated pool will be welcome additions to the spa.



# Corporate governance

## INTRODUCTION

The board of Hospitality is committed to the promotion of good corporate governance as outlined in the King II report on Corporate Governance ('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 comprised of 10 members, six of which are non-executive and four of which are 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.

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 takes responsibility for the full and effective control of the company, it provides strategic direction to the Fund and monitors management's implementation of strategies and objectives.

One third of the non-executive directors retire from office at every annual general meeting, all of whom

are subject to retirement by rotation at least once every three years. Retiring directors are eligible for re-election.

Board meetings are held at least quarterly and additional meetings are convened when circumstances necessitate. Formal agendas and board reports are prepared for all meetings to ensure that matters that require attention are properly addressed and that directors are provided with the necessary information so as to prepare thoroughly and to take informed decisions.

The board has established a number of sub-committees to assist it in discharging its duties. Each sub-committee operates within its defined written terms of reference, which is regularly reviewed and approved by the board.

An annual self-evaluation is conducted of the sub-committees and the board as a whole and the performance and conduct of the chairman and the chief executive officer is rated. Questionnaires are assessed by the audit committee chairman and the company secretary and the board is presented with the results of the questionnaire. Any issues or concerns raised are addressed and dealt with by the audit committee chairman.

## 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 16 August 2007, Mr M S Hoosen resigned as an independent non-executive director.

- (ii) On 29 August 2007:
  - (a) Mr W C Ross was appointed chairman of the audit committee; and
  - (b) Mr K H Abdul-Karrim replaced Mr Aminzadeh as chairman of the investment committee.
- (iii) Mr W J Midgley was appointed to the board on 2 January 2008. Mr Midgley is a non-independent non-executive director.
- (iv) On 27 June 2008, Dr Z N Kubukeli was appointed as an independent non-executive director to the board.
- (v) On 21 August 2008 Mr K H Abdul-Karrim was appointed as a member of the audit committee.
- (vi) On 21 August 2008 Dr Z N Kubukeli was appointed as a member of the investment and BEE committees.
- (vi) Mr R Asmal, an executive director of the board was appointed as the financial director of the Fund on 21 August 2008. The appointment was made in terms of section 3.84 of the amended JSE Limited Listings Requirements, subsequent to the audit committee having satisfied itself as to the appropriateness of Mr Asmal's expertise and experience.

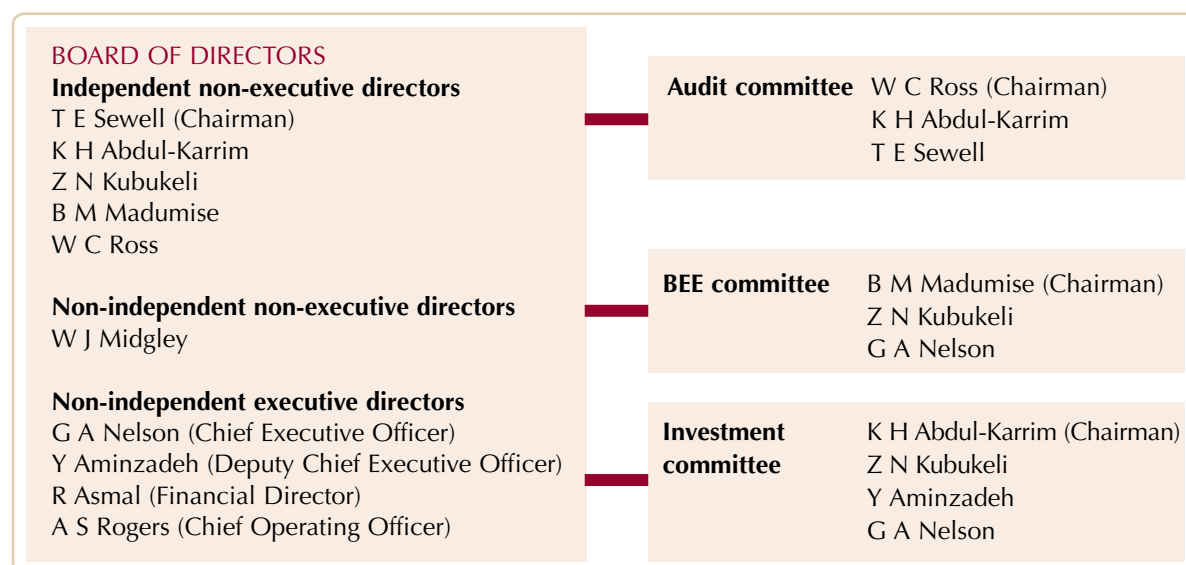
## MEMBERSHIP OF AND APPOINTMENTS TO THE BOARD

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.

Directors are selected 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 interest 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 and committee fees. These fees are benchmarked against the industry, recommended by the audit committee and approved by the board, subject to approval/ratification by the unitholders. Details are set out on page 53.

## Attendance at board and sub-committee meetings

	Remuneration year ended 30 June 2008 (Rand)	Number of meetings held for the financial year ended 30 June 2008 (since date of appointment)	Number of meetings attended
<b>Board members</b>			
T E Sewell (Chairman)	135 000	7	7
K H Abdul-Karrim	108 000	7	7
Y Aminzadeh*	–	7	7
R Asmal*	–	7	7
Z N Kubukeli#	–	1	1
B M Madumise	108 000	7	5
W M Midgley■	54 000	4	4
G A Nelson*	–	7	7
A S Rogers*	–	7	7
W C Ross	108 000	7	6
<b>Audit committee members</b>			
W C Ross (Chairman)	32 400	5	5
T E Sewell	21 500	5	5
<b>BEE committee members</b>			
B M Madumise (Chairman)	11 000	4	4
M S Hoosen♦	–	1	1
G A Nelson*	–	4	4
<b>Investment committee members</b>			
K H Abdul-Karrim (Chairman)	21 500	3	3
Y Aminzadeh*	–	3	3
M S Hoosen♦	–	1	1
G A Nelson*	–	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 (Pty) Limited out of the management fee which it receives from Hospitality. For further detail refer to note 13 on page 53.

■ Appointed 2 January 2008.

# Appointed 27 June 2008.

♦ Resigned 16 August 2007.

#### DEALING IN THE LINKED UNITS OF HOSPITALITY

Hospitality has established a share dealing policy in line with the JSE Limited Listings Requirements and the Security Services Act, 36 of 2004, which prohibits any director of the company, any associate of such director or any person employed by the management company and who may have access to confidential information from dealing directly or indirectly in the linked units of the company during restricted periods. This includes 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.

During unrestricted periods, no director is allowed to trade in the linked units of the company without the requisite pre-approval.

#### INTERNAL CONTROLS AND RISK MANAGEMENT

The management company has a dedicated team of asset managers and analysts, who on a monthly basis reviews policies, controls, processes and systems. The asset management team acts independently from the hotel operators and reports directly to the executive committee of the management company. The asset management team is represented by the financial director at each audit committee meeting and has unrestricted access to the chairman of the board and the audit committee. The policies and processes relating to financial risk management are set out on pages 58 to 65 of the annual report.

#### EXTERNAL AUDIT

The external auditor of Hospitality is KPMG Inc. The independence of the external auditor is recognised and constantly reviewed by the audit committee.

The external auditor has unrestricted access to the audit committee and its chairman.

#### SUB-COMMITTEES

The board has established the following sub-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.

#### **Audit committee**

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

The committee now comprises three independent non-executive directors. The chief executive officer, financial director, management company and external auditor are represented at meetings by invitation.

The committee's primary objectives are to satisfy the board that:

- adequate systems and control processes are in place;

- that accurate and reliable information has been used in the financial reporting process;
- the external auditor is acting independently and that the external auditor's performance is satisfactory;
- to approve the external auditor's appointment and audit fee;
- effective processes are in place for risk identification and analysis; and
- ongoing risks are monitored and managed.

The committee pre-approves any proposed non-audit services to be rendered by the external auditor and ensures that the designated auditor, or audit partner does not serve for any term longer than five consecutive financial years.

The committee monitors the ethical conduct of the Fund, its executives and officers and has no reason to believe that there has been any violation in this regard.

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

### **BEE committee**

The committee comprises one executive and two independent non-executive directors.

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

In the absence of the final Charter, Hospitality is taking advice from an external BEE consultancy with regard to obtaining a rating in terms of the current DTI codes.

The various hotels within the Fund's property portfolio are involved in social issues complementary to its core business and these include various upliftment programmes and donations to orphanages and communities.

### **Investment committee**

Until recently, the committee comprised one independent non-executive director and two executive directors. Due to the committee lacking at least a balance of executive and non-executive directors, which is the minimum requirement of its approved terms of reference, all investment decisions taken during the financial year ended 30 June 2008 have been approved by the board.

Subsequent to year end, Dr Z N Kubukeli was appointed as a member of the committee. The committee currently comprises a balance of executive and independent non-executive directors.

Each transaction was considered individually in line with the Fund's strategy for acquisitions, disposals, and development and proposals believed to be feasible were approved.

### BEE OWNERSHIP

Hospitality currently has an overall BEE ownership of 22,6% of total units in issue through the holdings of Nobuntu Investments (Pty) Limited, Nobuntu Investments II (Pty) Limited and The National Empowerment Fund Corporation (Pty) Limited.

### EMPLOYMENT EQUITY

As the company has no employees, having contracted out the asset management and property 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, direct interviews and limited radio interviews.

Hospitality's website [www.hpf.co.za](http://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 72 to 76 of this report.





# PROTEA HOTEL THE WINKLER

This landmark property is undergoing a complete transformation in order to position it as the foremost conference and leisure destination in the Lowveld. The Fund anticipates spending some R26 million on the refurbishment project. The additional conference facilities will supplement the existing leisure and international tour operator business. The refurbishment encompasses all bedrooms, commercial areas and leisure facilities. The programme is expected to be completed in May 2009.



After a tough day's work, it's great to have a home away from home. Smiling faces, good food and a clean, comfortable room. They've got everything I need, and a bit more to keep me smiling. I'll come back because I know what to expect and they'll deliver every time.

**The Bayshore Inn. Stay. Save. Smile.**





*Courtyard Arcadia*



# Annual financial statements

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## Directors' responsibility and approval

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 2008, 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 21 August 2008 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 2008, 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) Limited**  
Secretaries

21 August 2008

# Report of the independent auditor

## TO THE MEMBERS OF HOSPITALITY PROPERTY FUND LIMITED

### REPORT ON THE FINANCIAL STATEMENTS

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 2008, 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 36 to 69.

### 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.

### AUDITOR'S 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.

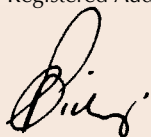
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

### 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 2008, 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

21 August 2008

KPMG Crescent  
85 Empire Road  
Parktown  
Johannesburg

# Directors' report

The directors have pleasure in submitting their report for the year ended 30 June 2008.

## 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 only 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 22 properties valued at R2,3 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 Manager's report on pages 2 to 15.

## 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 year 15 903 352 A-linked units and 15 903 352 B-linked units were issued at R12,86 and R18,58 per unit respectively.

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

## DIRECTORATE

Details of the composition and changes to the board can be found on page 26.

In terms of the company's articles of association, Dr Z N Kubukeli and Mr W J Midgley retire by rotation and offer themselves for re-election.

## DIRECTORS' INTERESTS

The directors' holdings of linked units at 30 June 2008 were:

A-linked units (number of units)	2008				2007			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh	–	133 235	–	133 235	–	132 496	–	132 496
Z N Kubukeli	–	207 764	–	207 764	–	–	–	–
B M Madumise	–	302 940	–	302 940	–	302 940	–	302 940
W J Midgley	–	26 962	–	26 962	–	–	–	–
G A Nelson	–	1 793 003	–	1 793 003	–	1 726 528	–	1 726 528
T E Sewell	40 443	–	–	40 443	30 000	–	–	30 000
	<b>40 443</b>	<b>2 463 904</b>	<b>–</b>	<b>2 504 347</b>	<b>30 000</b>	<b>2 161 964</b>	<b>–</b>	<b>2 191 964</b>

**B-linked units (number of units)**

	2008				2007			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh	-	169 916	-	169 916	-	152 036	-	152 036
R Asmal	10 133	-	-	10 133	-	-	-	-
Z N Kubukeli	-	207 764	-	207 764	-	-	-	-
W J Midgley	-	53 924	-	53 924	-	-	-	-
G A Nelson	-	1 449 175	-	1 449 175	-	1 334 814	-	1 334 814
T E Sewell	46 913	-	-	46 913	34 800	-	-	34 800
	<b>57 046</b>	<b>1 880 779</b>	<b>-</b>	<b>1 937 825</b>	<b>34 800</b>	<b>1 486 850</b>	<b>-</b>	<b>1 521 650</b>

**DIRECTORS' REMUNERATION**

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

**DISTRIBUTION TO UNITHOLDERS**

Distribution to unitholders is disclosed in note 19 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 (Grapnel) (53,4%) and Hospitality Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (46,6%). Hospitality Hotel Management Company (Pty) Limited (Hotel Manco) which is owned by Grapnel (53,4%) and HTLAM (46,6%) is the hotel management company for The Rosebank, The Winkler, Mount Grace Country House & Spa, The Richards, The Bayshore Inn, Imperial Hotel, Hluhluwe Hotel & Safaris and 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 page 84.

**SUBSIDIARY COMPANY**

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

**SUBSEQUENT EVENTS**

Linked unitholders are advised that the company has entered into an agreement dated 23 July 2008 to acquire the 4-star hotel known as the "Holiday Inn Sandton – Rivonia Road" adjacent to the Village Walk Shopping Centre from Central Plaza Investments 28 (Pty) Limited for a total purchase consideration of R400 million. The 301-key hotel commenced trading in September 2008 and the property is likely to be transferred to the Fund during the second quarter of the 2009 financial year.

**GOING CONCERN**

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

# Balance sheets

as at 30 June 2008

	Notes	GROUP		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>2 300 495</b>	1 678 863	<b>1 490 738</b>	976 435
Investment properties	2	2 249 704	1 662 747	–	–
Straight-line rent income accrual	3	9 976	5 612	–	–
Derivative assets	24.1	40 815	10 504	–	–
Investment in subsidiary	4			1 490 738	976 435
<b>Current assets</b>		<b>207 128</b>	20 970	<b>80</b>	3 356
Trade and other receivables	5	17 522	13 443	80	3 356
Cash and cash equivalents	6	189 606	7 527	–	–
<b>Total assets</b>		<b>2 507 623</b>	1 699 833	<b>1 490 818</b>	979 791
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>		<b>770 990</b>	360 289	<b>247 148</b>	64 890
Share capital and share premium	7	247 148	64 890	247 148	64 890
Retained earnings		980	4 815	–	–
Fair value reserve	8	522 862	290 584	–	–
<b>Non-current liabilities</b>		<b>1 624 462</b>	1 225 306	<b>1 157 912</b>	858 929
Debentures	9	1 157 912	858 929	1 157 912	858 929
Interest-bearing liabilities	10	279 726	250 570	–	–
Deferred taxation	11	186 824	115 807	–	–
<b>Current liabilities</b>		<b>112 171</b>	114 238	<b>85 758</b>	55 972
Trade and other payables	12	26 935	58 266	522	–
Debenture interest payable		85 236	55 972	85 236	55 972
<b>Total equity and liabilities</b>		<b>2 507 623</b>	1 699 833	<b>1 490 818</b>	979 791
<b>NET ASSET VALUE PER LINKED UNIT (RAND)*</b>					
A-linked unit		<b>15,66</b>	13,34	<b>11,41</b>	10,11
B-linked unit		<b>15,66</b>	13,34	<b>11,41</b>	10,11

\* Net asset value per linked unit defined as:  
(Total assets – Total liabilities + Debentures)/(Linked units in issue at end of year)

# Income statements

for the year ended 30 June 2008

	Notes	GROUP		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>Revenue</b>		<b>200 594</b>	142 391	–	–
Rental income – contractual		<b>196 230</b>	138 556	–	–
– straight-line accrual		<b>4 364</b>	3 835	–	–
<b>Expenditure</b>		<b>(26 851)</b>	(18 921)	<b>(3 312)</b>	–
Property and other operating expenses		<b>(26 851)</b>	(18 921)	<b>(3 312)</b>	–
<b>Operating profit/(loss)</b>	13	<b>173 743</b>	123 470	<b>(3 312)</b>	–
<b>Net finance (cost)/income</b>	14	<b>(10 345)</b>	(24 206)	<b>162 346</b>	95 429
Finance income		<b>24 022</b>	4 240	<b>162 346</b>	95 429
Finance costs		<b>(34 367)</b>	(28 446)	–	–
<b>Profit before debenture interest, fair value adjustments and taxation</b>		<b>163 398</b>	99 264	<b>159 034</b>	95 429
Recoupment of debenture interest	15	<b>8 278</b>	3 356	<b>8 278</b>	3 356
Debenture interest		<b>(167 312)</b>	(98 785)	<b>(167 312)</b>	(98 785)
<b>Profit before fair value adjustments and taxation</b>		<b>4 364</b>	3 835	–	–
<b>Fair value adjustments</b>		<b>295 096</b>	253 076	–	–
Revaluation of investment properties		<b>269 149</b>	237 857	–	–
Straight-line rental income accrual		<b>(4 364)</b>	(3 835)	–	–
Interest-rate swaps		<b>30 311</b>	19 054	–	–
<b>Profit before taxation</b>		<b>299 460</b>	256 911	–	–
<b>Taxation</b>	16	<b>(71 017)</b>	(68 351)	–	–
<b>Profit for the year</b>		<b>228 443</b>	188 560	–	–
<b>Distribution per linked unit (cents)</b>					
A-units	17	<b>105,49</b>	100,46	<b>105,49</b>	100,46
B-units	17	<b>166,16</b>	140,40	<b>166,16</b>	140,40
		<b>271,65</b>	240,86	<b>271,65</b>	240,86
<b>Earnings and diluted earnings per share (cents)</b>					
A-units	17	<b>201,67</b>	238,50	–	–
B-units	17	<b>201,67</b>	238,50	–	–
		<b>403,34</b>	477,00	–	–

# Statements of changes in equity

for the year ended 30 June 2008

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Equity total R'000
<b>GROUP</b>					
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 expense 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	–
<b>Balance at 30 June 2007</b>	<b>9</b>	<b>64 881</b>	<b>4 815</b>	<b>290 584</b>	<b>360 289</b>
Issue of ordinary shares	3	192 737			192 740
Share issue expenses		(10 482)			(10 482)
Profit for the year/total income and expense for the year			228 443		228 443
Transfer to/(from) fair value reserve – revaluation of investment properties (net of deferred tax)			(198 132)	198 132	–
Transfer to/(from) fair value reserve – straight-line rental income			(3 835)	3 835	–
Transfer to/(from) fair value reserve – interest rate swaps			(30 311)	30 311	–
<b>Balance at 30 June 2008</b>	<b>12</b>	<b>247 136</b>	<b>980</b>	<b>522 862</b>	<b>770 990</b>
<b>COMPANY</b>					
Balance at 30 June 2006	7	39 457	–	–	39 464
Issue of ordinary shares	2	25 424			25 426
<b>Balance at 30 June 2007</b>	<b>9</b>	<b>64 881</b>	<b>–</b>	<b>–</b>	<b>64 890</b>
Issue of ordinary shares	3	192 737			192 740
Share issue expenses		(10 482)			(10 482)
<b>Balance at 30 June 2008</b>	<b>12</b>	<b>247 136</b>	<b>–</b>	<b>–</b>	<b>247 148</b>

# Cash flow statements

for the year ended 30 June 2008

	Notes	GROUP		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>Cash flows from operating activities</b>					
Cash generated from/(utilised in) operations	18	133 969	162 477	486	(3 356)
Finance income received	14	24 022	4 240	162 346	95 429
Finance costs paid	14	(34 367)	(28 446)	–	–
Distribution to unitholders	18	(129 770)	(69 308)	(129 770)	(69 308)
Net cash (outflow)/inflow from operating activities		(6 146)	68 963	33 062	22 765
<b>Cash flows from investing activities</b>					
Acquisition of investment properties	20	(322 172)	(269 358)	–	–
Loan advanced to subsidiary		–	–	(514 303)	(227 035)
Net cash outflow from investing activities		(322 172)	(269 358)	(514 303)	(227 035)
<b>Cash flows from financing activities</b>					
Proceeds from the issue of linked units		491 723	204 270	481 241	204 270
Share issue expenses paid		(10 482)	–	–	–
Interest-bearing liabilities raised/(repaid)		29 156	(702)	–	–
Net cash inflow from financing activities		510 397	203 568	481 241	204 270
Net increase in cash and cash equivalents		182 079	3 173	–	–
Cash and cash equivalents at beginning of year		7 527	4 354	–	–
<b>Cash and cash equivalents at end of year</b>		<b>189 606</b>	<b>7 527</b>	<b>–</b>	<b>–</b>

# Notes to the annual financial statements

for the year ended 30 June 2008

## 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 2008 comprise those of the company and its subsidiary (together referred to as the 'group' and individually as 'group entities'). The financial statements were authorised for issue by the directors on 21 August 2008.

### 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 measurement and disclosure purposes. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. These revisions are recognised in the period in which it is revised or any future period affected.

### 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 balances and 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 acquired 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 flow to the entity. 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, net of deferred taxation, are transferred to a fair value reserve as they are not available for distribution.

Realised profits or 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 a capital reserve.

#### **1.5 Financial instruments**

Financial instruments are initially measured at fair value, plus transaction costs other than those classified as fair value through profit or loss. Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, loan to subsidiary, 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 measured at amortised cost which is equivalent to fair value.

##### **1.5.2 Trade and other receivables**

Trade and other receivables are subsequently measured at amortised cost, less impairment losses. An estimate is made for impairment 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. Receivables with a short duration are not discounted.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 1.5.3 Trade and other payables

Trade and other payables are measured at amortised cost.

## 1.5.4 Other financial liabilities

Interest-bearing borrowings and debentures are measured 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.

Subsequent to initial recognition derivative financial instruments are measured 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 instruments held by the group are interest-rate swaps. 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 Derecognition

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 in the group; or
- 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 company 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, is 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.

The recoverable amount of other assets is the greater of their fair value less cost to sell 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 amortised 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. Impairment loss reversals are recognised in profit or loss.

## **1.8 Share capital and share premium**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds, net of any tax effects.

## **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.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 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.

### 1.11.2 Finance costs

Finance costs that are directly attributable to the acquisition or construction of a qualifying 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 income on 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 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 reviewed at each reporting date and 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 effective only in future accounting periods, unless early adoption is chosen. The following would be applicable to the group:

##### **IFRS 8 – Operating segments**

IFRS 8 replaces IAS 14 *Segment Reporting* and aligns segment reporting with the requirements of SFAS 131 (US Standard). This statement is effective for annual periods commencing on or after 1 January 2009.

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.

##### **IFRS 3 – Business Combinations**

The revised IFRS 3 will be adopted for the first time for the financial reporting period ending 30 June 2010.

IFRS 3 applies to all new business combinations that occur after 1 July 2009. For these future business combinations, the group will change its accounting policies to be in line with the revised IFRS 3. In future, all transaction costs will be expensed and contingent purchase consideration will be recognised at fair value at acquisition date. For successive share purchases, any gain or loss for the difference between the fair value and the carrying amount of the previously held equity interest in the acquiree will be recognised in profit or loss.

##### **IAS 23 – Borrowings Costs**

A revised IAS 23 *Borrowing Costs* was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. It is not expected that this standard will impact on the group’s financial statements.

##### **IAS 1 – Presentation of Financial Statements**

The revised IAS 1 introduces the concept of comprehensive income. Comprehensive income is all income earned, net of related costs, which is currently shown in both the income statement and statement of changes in equity, other than transactions directly with owners. This amendment is effective for periods commencing on or after 1 January 2009.

##### **IFRIC 15 – Agreements for the Construction of Real Estate**

IFRIC 15 will be adopted for the first time for the financial period ending 30 June 2010 and must be applied retrospectively.

IFRIC 15 addresses accounting for agreements for the construction of real estate and will have an impact on the timing of the recognition of revenue resulting from these contracts.

All revenue from the agreements for construction of real estate is currently recognised upon transfer of the final real estate to the client. The interpretation requires that where the revenue recognition criteria per IAS 18 are met continuously as the construction progresses, revenue should be recognised using the stage-of-completion method.

The interpretation is not expected to have significant effects on the group’s financial statements.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>2. INVESTMENT PROPERTIES</b>				
Balance at beginning of year	<b>1 662 747</b>	1 159 367	–	–
Additions at cost – acquisitions	<b>260 719</b>	259 306	–	–
– capitalised expenditure	<b>61 453</b>	10 052	–	–
Fair value adjustment	<b>269 149</b>	237 857	–	–
Property at fair value	<b>2 254 068</b>	1 666 582	–	–
Less: Straight-line rental income accrual	<b>(4 364)</b>	(3 835)	–	–
Balance at end of year	<b>2 249 704</b>	1 662 747	–	–

The investment property portfolio serves as collateral against loans from funding banks. Refer to note 10.

Investment properties were independently valued at 30 June 2008. The valuation of the portfolio was split between the following registered valuers from JHI (Gensec Property Services Limited):

Mr B van Vuuren

Professional Associate Valuer

Mr P Jackson, Chartered Surveyor

Professional Associate Valuer

The valuation was undertaken using the income capitalisation and the discounted cash flow methods.

A summary of the valuation is reflected on page 19 of the report.

Details of construction and redevelopments are contained on page 12.

<b>3. STRAIGHT-LINE RENT INCOME ACCRUAL</b>				
Balance at beginning of year	<b>5 612</b>	1 777	–	–
Straight-line rental accrued during year	<b>4 364</b>	3 835	–	–
Balance at end of year	<b>9 976</b>	5 612	–	–

<b>4. INVESTMENT IN SUBSIDIARY</b>				
HPF Properties (Pty) Limited (100% direct holding)				
Shares at cost (R120)			–	–
Loan to subsidiary			<b>1 490 738</b>	976 435
			<b>1 490 738</b>	976 435

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) Limited 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) Limited as defined in the debenture trust deed. Interest is payable six monthly.

An amount of R162,3 million (2007: R95,4 million) has been paid as interest to the holding company during this year.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>5. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	17 430	7 566	–	–
Recoupment of debenture interest	–	3 356	–	3 356
Prepayments	1	1 010	80	–
Loans and receivables	17 431	11 932	80	3 356
VAT refund due from SARS	91	1 511	–	–
Trade and other receivables	17 522	13 443	80	3 356
<b>6. CASH AND CASH EQUIVALENTS</b>				
Comprises bank balances of current and call accounts	189 606	7 527	–	–
<b>7. SHARE CAPITAL AND SHARE PREMIUM</b>				
<b>Share capital</b>				
<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 – 61 591 087 (2007 – 45 687 735) ordinary shares of R0,0001 each	6,2	4,6	6,2	4,6
B shares – 61 591 087 (2007 – 45 687 735) ordinary shares of R0,0001 each	6,2	4,6	6,2	4,6
	12,4	9,2	12,4	9,2
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, as amended and the requirements of the JSE Limited.				
<b>Share premium</b>				
Balance at beginning of year	64 881	39 457	64 881	39 457
Premium on share issue	192 737	25 424	192 737	25 424
Share issue expenses	(10 482)	–	(10 482)	–
Balance at end of year	247 136	64 881	247 136	64 881
<b>Share capital and share premium</b>	247 148	64 890	247 148	64 890

# Notes to the annual financial statements continued

for the year ended 30 June 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>8. FAIR VALUE RESERVE</b>				
Revaluation of investment properties (net of deferred tax)	483 824	285 692	–	–
Revaluation of interest rate swap	40 815	10 504	–	–
Revaluation of straight-line rental	(1 777)	(5 612)	–	–
	<b>522 862</b>	290 584	–	–
<b>9. DEBENTURES</b>				
<b>Issued</b>	<b>1 157 912,00</b>	858 929,42	<b>1 157 912,00</b>	858 929,42
A shares – 61 591 087 (2007: 45 687 735) debentures at R9,40 each	<b>578 956,00</b>	429 464,71	<b>578 956,00</b>	429 464,71
B shares – 61 591 087 (2007: 45 687 735) debentures at R9,40 each	<b>578 956,00</b>	429 464,71	<b>578 956,00</b>	429 464,71
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 fifth anniversary of the special resolution. The debenture trust deed is available for inspection by linked unit holders 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.				

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>10. INTEREST-BEARING LIABILITIES</b>				
<b>Absa Bank Limited – Main loan</b>	<b>251 096</b>	250 570	–	–
Interest is payable at JIBAR plus 1,3% on a nominal annual compounded monthly basis. This loan with a capital repayment of R253 million is repayable on 10 February 2012.				
<b>Absa Bank Limited – Development loan</b>	<b>28 630</b>	–	–	–
The loan was raised specifically in order to fund ongoing developments of the group. Interest was payable at prime less 1,75% until 15 April 2008, after which the rate reduced to prime less 2,0% on a nominal annual compounded monthly in arrear basis. This loan has no fixed terms of repayment.				
	<b>279 726</b>	250 570	–	–
The above loans with Absa Bank Limited are secured in terms of a first mortgage bond over investment properties with a market value of R2,3 billion and a cession of leases and rentals in respect of bonded properties. 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.				

# Notes to the annual financial statements continued

for the year ended 30 June 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>11. DEFERRED TAXATION</b>				
Change in fair value of building component of investment properties	<b>185 165</b>	115 179	–	–
Change in fair value of land component of investment properties	<b>1 659</b>	628		
	<b>186 824</b>	115 807	–	–
<p>Deferred taxation on the fair value adjustment of investment properties has been calculated at 14% (2007: 14,5%) on land value and 28% (2007: 29%) on buildings.</p> <p>Deferred tax is not recognised on fair value adjustments related to the swap agreements.</p> <p>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.</p>				
<b>12. TRADE AND OTHER PAYABLES</b>				
Retentions	<b>2 960</b>	3 042	–	–
Vendors on purchase of property	–	40 325	–	–
Trade payables	<b>18 396</b>	12 550	<b>522</b>	–
Tenant deposits	<b>5 579</b>	1 758	–	–
VAT payable	–	591	–	–
	<b>26 935</b>	58 266	<b>522</b>	–
<b>13. OPERATING PROFIT/(LOSS)</b>				
<p>Operating profit/(loss) is stated after charging the following:</p> <p>Auditor's remuneration</p> <p>– Audit fee</p> <p>Directors' emoluments (refer note 13.1)</p> <p>Management fees payable to Hospitality Property Fund Managers (Pty) Limited</p> <p>Property and other expenses were incurred to generate rental income.</p>				
	<b>390</b>	300	<b>62</b>	–
	<b>599</b>	705	<b>599</b>	–
	<b>21 236</b>	14 347	<b>1 202</b>	–

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>13. OPERATING PROFIT/(LOSS) continued</b>				
<b>13.1 Directors' emoluments</b>				
Fees for services as directors				
<b>Non-executive</b>				
T E Sewell (Chairman)	157	145	157	–
K H Abdul-Karrim	129	120	129	–
Y Aminzadeh (paid to Hotel Tourism and Leisure Asset Management (Pty) Limited)*	–	40	–	–
J J P G Bass	–	60	–	–
M S Hoosen (paid to Meago (Pty) Limited)	–	158	–	–
B M Madumise	119	109	119	–
W Midgley	54	–	54	–
G A Nelson*	–	43	–	–
W C Ross	140	30	140	–
	<b>599</b>	<b>705</b>	<b>599</b>	<b>–</b>
<b>Executive</b> (remuneration packages were borne by Hospitality Property Fund Managers (Pty) Limited)				
Y Aminzadeh*	750	500	–	–
R Asmal	1 136	699	–	–
B Hutchison	–	551	–	–
G A Nelson*	750	500	–	–
A S Rogers	1 701	577	–	–
	<b>4 337</b>	<b>2 827</b>	<b>–</b>	<b>–</b>
* Y Aminzadeh and G A Nelson were non-executives to 31 October 2006. The board was restructured and they became executive directors thereafter.				
<b>14. FINANCE INCOME</b>				
Tenants and positive bank balances	24 022	4 240	–	–
Subsidiary company	–	–	162 346	95 429
	<b>24 022</b>	<b>4 240</b>	<b>162 346</b>	<b>95 429</b>
<b>Finance costs</b>				
Interest-bearing liabilities	(34 367)	(28 446)	–	–

# Notes to the annual financial statements continued

for the year ended 30 June 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>15. RECOUPMENT OF DEBENTURE INTEREST</b>				
Recoupment of debenture interest – rights issue	8 278	–	8 278	–
Recoupment of debenture interest – BEE transaction	–	3 356	–	3 356
	<b>8 278</b>	<b>3 356</b>	<b>8 278</b>	<b>3 356</b>

As distributions are paid on a six-monthly basis, all distributions in respect of units issued which relate to a period prior to the unit issue date would be refunded to the company.

## 16. TAXATION

Deferred taxation expense	71 017	68 351	–	–
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No provision has been made for current taxation as the group has no taxable income for the year

### Reconciliation of taxation rate

Current taxation rate	28,0%	29,0%	–	–
Prior year deferred tax adjustment due to change in tax rate	(1,5%)	0,0%	–	–
Interest rate swap	(2,8%)	(2,4%)	–	–
Effective taxation rate	23,7%	26,6%	–	–

The group has no liability for normal taxation as 99,99% of its profit is paid out as debenture interest and is consequently subject to tax according to the individual linked unitholder's tax status.

## 17. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT

	Group 2008 Gross	Group 2008 Net of tax	Company 2007 Gross	Company 2007 Net of tax
<b>Profit for the year</b>		<b>228 443</b>		188 560
Adjustments: Debenture interest	167 312	167 312	98 785	98 785
<b>Earnings (linked units)</b>		<b>395 755</b>		287 345
Adjustments:				
Fair value – investment properties revaluation (net of taxation)	(269 149)	(198 132)	(237 857)	(169 506)
Fair value – straight-line rental income	4 364	4 364	3 835	3 835
<b>Headline earnings (linked units)</b>		<b>201 987</b>		121 674
Fair value – interest rate swaps	(30 311)	(30 311)	(19 054)	(19 054)
Straight-line rental income	(4 364)	(4 364)	(3 835)	(3 835)
<b>Distributable earnings</b>		<b>167 312</b>		98 785

	2008			2007		
	A units	B units	Total	A units	B units	Total
<b>17. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT continued</b>						
Number of units	<b>61 591 087</b>	<b>61 591 087</b>		45 687 735	45 687 735	
Weighted average number of units	<b>56 637 584</b>	<b>56 637 584</b>		39 530 070	39 530 070	
<b>GROUP</b>						
Distribution per linked unit (cents)	<b>105,49</b>	<b>166,16</b>	<b>271,65</b>	100,46	140,40	240,86
Earnings per linked unit (cents)	<b>349,38</b>	<b>349,38</b>	<b>698,76</b>	363,45	363,45	726,90
Headline earnings per linked unit (cents)	<b>178,32</b>	<b>178,32</b>	<b>356,64</b>	153,90	153,90	307,80
Earnings per share (cents)	<b>201,67</b>	<b>201,67</b>	<b>403,34</b>	238,50	238,50	477,00

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>NOTES TO THE CASH FLOW STATEMENTS</b>				
<b>18. CASH GENERATED FROM OPERATIONS</b>				
Profit before taxation	<b>299 460</b>	256 911	–	–
Adjusted for:				
Net finance costs	<b>10 345</b>	24 206	<b>(162 346)</b>	(95 429)
Net debenture interest	<b>159 034</b>	95 429	<b>159 034</b>	95 429
Straight-lining accrual of rental income	<b>(4 364)</b>	(3 835)	–	–
Fair-value adjustments	<b>(295 096)</b>	(253 076)	–	–
Cash generated/(utilised) before working capital changes	<b>169 379</b>	119 635	<b>(3 312)</b>	–
Changes in working capital	<b>(35 410)</b>	42 842	<b>3 798</b>	(3 356)
(Increase)/decrease in trade and other receivables	<b>(4 079)</b>	3 817	<b>3 276</b>	(3 356)
(Decrease)/increase in trade and other payables	<b>(31 331)</b>	39 025	<b>522</b>	–
	<b>133 969</b>	162 477	<b>486</b>	(3 356)
<b>19. DISTRIBUTION TO UNITHOLDERS</b>				
Balance at beginning of year	<b>55 972</b>	29 851	<b>55 972</b>	29 851
Amount per income statement	<b>159 034</b>	95 429	<b>159 034</b>	95 429
Balance at end of year	<b>(85 236)</b>	(55 972)	<b>(85 236)</b>	(55 972)
	<b>129 770</b>	69 308	<b>129 770</b>	69 308
<b>20. ACQUISITION OF INVESTMENT PROPERTIES</b>				
Balance at beginning of year	<b>1 668 359</b>	1 161 144	–	–
Fair-value adjustments	<b>269 149</b>	237 857	–	–
Balance at end of year	<b>(2 259 680)</b>	(1 668 359)	–	–
Acquisition at cost	<b>(322 172)</b>	(269 358)	–	–

# Notes to the annual financial statements continued

for the year ended 30 June 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>21. CAPITAL COMMITMENTS</b>				
Authorised and committed	<b>863 000</b>	445 000	–	–
The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.				
<b>22. MINIMUM LEASE RENTALS RECEIVABLE</b>				
At 30 June 2008 the group had contracts with tenants for the following minimum lease rentals:				
Less than one year	<b>148 231</b>	111 570	–	–
Between one and five years	<b>517 165</b>	393 062	–	–
After five years	<b>291 974</b>	279 766	–	–
	<b>957 370</b>	784 398	–	–
<b>23. RELATED PARTY TRANSACTIONS</b>				
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 year:				
<b>Hospitality Property Fund Managers (Pty) Limited (Manco) – Fund and asset manager*</b>				
<i>Shareholders: Grapnel Property Asset Managers (Pty) Limited (Grapnel) (53,4%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (46,6%)</i>				
Brokerage fee paid by group	<b>5 888</b>	4 085	–	–
Management fee paid by group	<b>21 236</b>	14 347	–	–
Relationship – Fund manager and directorial				
<b>Majormatic 194 (Pty) Limited (C-Corp) – Hotel operating company*</b>				
<i>(Shareholders: Grapnel (53,4%) and HTLAM (46,6%))</i>				
Rental received by group	<b>79 182</b>	47 815	–	–
Relationship – shareholding of Manco and directorial				

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
<b>23. RELATED PARTY TRANSACTIONS continued</b>				
<b>Hospitality Hotel Management Company (Pty) Limited – Hotel management company*</b>				
<i>(Shareholders: Grapnel (53,4%) and HTLAM (46,6%))</i>				
Management fee paid by hotels	<b>10 989</b>	4 083	–	–
Reimbursement of sales team costs	<b>1 874</b>	686	–	–
Relationship – shareholding of Manco and directorial				
<b>Winkler Hotel Management Company (Pty) Limited – Hotel management company*</b>				
<i>(Shareholders: Grapnel (50,0%) and HTLAM (50,0%))</i>				
Management fee paid by hotel	–	138	–	–
Relationship – shareholding of Manco and directorial				

All transactions were on an arm's length basis.

\*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 13.1.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES

Financial instruments consist mainly of deposits with banks, loans to subsidiary company, trade and other receivables, loans from banks, debentures, debenture interest payable, trade and other payables and interest rate swaps. Exposure to interest rate, liquidity and credit risks arises in the normal course of business.

### Treasury policy

The group enters into derivative transactions such as interest rate swaps in order to help manage the financial risks arising from the group's activities. The main risks arising from the group's financing structure are market risk (in the form of interest rate risk) and liquidity risk. The policies for managing each of these risks and the principal effect of these policies on the results for the year are summarised below.

#### 24.1 Interest-rate risk

The group's policy is to eliminate substantially all exposure to interest rate fluctuations in order to establish certainty over long-term cash flows. Short-term debtors and creditors are not exposed to interest-rate risk. As a consequence, the group is exposed to market price risk in respect of the fair value of its fixed rate financial instruments and cash flow risk in respect of variable rate financial instruments.

The group's debt carries both fixed and floating interest rates, however it is the group's policy that at least 80% of its exposure to changes in interest rates on borrowings be on a fixed basis. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The interest rate swaps are not designated as cash flow hedges for accounting purposes and thus any changes to the interest rate at the date of reporting would affect profit or loss but, as these gains or losses are not available for distribution, they would be transferred to a fair value reserve.

At the reporting date, the group had entered into the following interest rate swap agreements with Absa Bank Limited:

	Fixed rate	Commence-ment date	Maturity	Fair value at 30 June 2008 R'000	Fair value at 30 June 2007 R'000
R253 million*	10,45%	Apr 2008	Apr 2012	24 009	–
R150 million	11,45%	Aug 2008	Aug 2013	8 753	–
R150 million**	11,15%	Dec 2008	Dec 2011	8 053	–
R253 million	8,83%	Feb 2006	Mar 2008	–	10 504
				<b>40 815</b>	10 504

\* (four years extendable to six years at the election of Absa)

\*\* (three years extendable to five years at the election of Absa)

#### Fair value sensitivity analysis for fixed-rate instruments

The approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement of R8,3 million in the fair value of derivatives. The approximate impact of a 50 basis point shift downwards in the level of interest rates would be a negative movement of R6,4 million in the fair value of derivatives. Movements in the fair value of derivatives are dealt with in the income statement.

#### Cash flow sensitivity analysis for variable rate instruments

In terms of the floating facilities, for each increase/decrease of 100 basis points, this change would affect interest paid by R0,3 million (2007: R0,3 million) per annum. The floating rate sensitivity analysis has been prepared assuming the amount of the instrument outstanding at the balance sheet date was outstanding for the whole year.

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

### 24.1 Interest-rate risk continued

At the reporting date, the group's interest rate profile was:

	Effective rate	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
<b>30 June 2008</b>					
Cash and cash equivalents					
– Cash on call	11,99%	182 033	182 033	–	–
– Current account	5,00%	7 572	7 572	–	–
Trade and other payables					
– Tenant deposit	11,99%	(5 579)	(5 579)	–	–
Financial liabilities					
– Absa Bank Limited – Main loan	13,11%	(251 096)	–	(251 096)	–
– Absa Bank Limited – Development loan	13,50%	(28 630)	(28 630)	–	–
Debentures	Variable	(1 157 912)	–	–	(1 157 912)
		(1 253 612)	155 396	(251 096)	(1 157 912)
<b>30 June 2007</b>					
Cash and cash equivalents					
– Cash on call	9,00%	6 000	6 000	–	–
– Current account	0,30%	1 527	1 527	–	–
Trade and other payables					
– Tenant deposit	7,94%	(1 757)	(1 757)	–	–
Financial liabilities					
– Absa Bank Limited – Main loan	10,54%	(250 570)	–	–	(250 570)
Debentures	Variable	(858 929)	–	–	(858 929)
		(1 103 729)	5 770	–	(1 109 499)

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

### 24.2 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet a financial commitment as it falls due. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments. The group's policy is to seek to optimise its exposure to liquidity risk by balancing its exposure to interest-rate risk and to refinancing risk. In effect, the group seeks to borrow for as long as possible at the lowest acceptable cost.

The group regularly reviews the maturity profile of its financial liabilities and seeks to avoid bunching of maturities through the regular replacement of facilities and by using a selection of maturity dates. Re-financing risk may be reduced by re-borrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk.

The following are the contractual maturities of financial liabilities. No interest payments have been included as the amounts involved are dependent on future changes in interest rates.

	Carrying amount R'000	0 – 12 months R'000	1-4 years R'000	More than 4 years R'000
<b>Group 30 June 2008</b>				
Interest-bearing liabilities	279 726	28 630	–	251 096
Trade and other payables	26 935	26 935	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	85 236	85 236	–	–
	<b>1 549 809</b>	<b>140 801</b>	<b>–</b>	<b>1 409 008</b>
<b>Group 30 June 2007</b>				
Interest-bearing liabilities	250 570	–	–	250 570
Trade and other payables	58 266	58 266	–	–
Debentures	858 929	–	–	858 929
Debenture interest payable	55 972	55 972	–	–
	1 223 737	114 238	–	1 109 499
<b>Company 30 June 2008</b>				
Trade and other payables	522	522	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	85 236	85 236	–	–
	<b>1 243 670</b>	<b>85 758</b>	<b>–</b>	<b>1 157 912</b>
<b>Company 30 June 2007</b>				
Debentures	858 929	–	–	858 929
Debenture interest payable	55 972	55 972	–	–
	914 901	55 972	–	858 929

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

### 24.2 Liquidity risk continued

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 can be summarised as follows:

	<b>30 June 2008 R'000</b>	30 June 2007 R'000
Property valuation	<b>2 259 680</b>	1 668 359
65% thereof	<b>1 468 792</b>	1 084 433
Effective borrowings	<b>279 726</b>	306 542
Unutilised borrowing capacity	<b>1 189 066</b>	777 891
Facilities available in terms of agreements at 30 June	<b>827 400</b>	445 000
Gearing ratio	<b>12,4%</b>	18,4%

### 24.3 Credit risk

Credit risk arises from the risk that trade receivables may default and result in a loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. Financial performance of the tenants 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.

#### 24.3.1 Credit exposure

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>Group 2008 R'000</b>	Group 2007 R'000	<b>Company 2008 R'000</b>	Company 2007 R'000
Trade and other receivables				
– Tenant and related receivables	<b>17 430</b>	7 566	–	–
– Other receivables	<b>92</b>	5 877	<b>80</b>	3 356
	<b>17 522</b>	13 443	<b>80</b>	3 356
Tenant deposits	<b>(5 579)</b>	(1 758)	–	–
Bank guarantees	<b>(36 597)</b>	(9 625)	–	–

The group holds collateral over certain tenant and related receivables in the form of tenant deposits and bank guarantees as detailed above.

The directors are of the opinion that, apart from tenant and related receivables, these financial assets have a low credit risk.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

### 24.3 Credit risk continued

#### 24.3.2 Impairment losses

The ageing of tenant and related receivables at the reporting date was:

	<b>Gross carrying value</b>	Gross carrying value	<b>Impairment</b>	Impairment
	<b>Group 2008 R'000</b>	Group 2007 R'000	<b>Group 2008 R'000</b>	Group 2007 R'000
Current (< 30 days)	<b>17 430</b>	7 566	<b>(504)</b>	(504)
<b>Total</b>	<b>17 430</b>	7 566	<b>(504)</b>	(504)

The movement in the allowance for impairment in respect of tenant and related receivables during the year was as follows:

	<b>Group 2008 R'000</b>	Group 2007 R'000
Balance at the beginning of the year	<b>504</b>	–
Impairment loss recognised	–	504
<b>Balance at the end of the year</b>	<b>504</b>	504

The group comprehensively assesses the individual circumstances and credit risk of the tenants' and impairment losses are recognised after the group is satisfied that no recovery of the amount owing is possible and the amount is considered irrecoverable.

### 24.4 Capital structure

The group views its capital base as the sum of its shares and debentures as each share is linked to a debenture. The group seeks to enhance unitholder value by both investing in the business so as to improve the return on investment and by managing the capital structure. The group uses a mix of equity and debt financial instruments and aims to access both debt and equity capital markets with maximum efficiency and flexibility. The key ratios used to monitor the capital structure are the debt to assets ratio (this ratio excludes debentures) and the interest coverage ratio. Notwithstanding the fact that the group's borrowings are limited by its articles of association to 65% of assets, the current strategy is to maintain debt levels below 50%.

The underlying debt to assets ratio decreased from 18,4% at 30 June 2007 to 12,4% at 30 June 2008.

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

### 24.5 Fair values of financial instruments

Financial assets and liabilities comprise long-term borrowings and other payables, derivative instruments, cash and receivables. The fair values of all financial instruments with the exception of linked debentures are substantially the same as the carrying amounts reflected on the balance sheet. The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach has been used.

#### **Debentures**

It is impractical to determine the fair value of the linked debentures.

#### **Derivatives**

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

#### **Non-derivative financial liabilities**

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### **Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

# Notes to the annual financial statements continued

for the year ended 30 June 2008

## 24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

The table below sets out the group's accounting classification of each class of financial assets and liabilities, and their fair values at 30 June 2008

	Held for trading R'000	Designated at fair value R'000	Loans and receivables at amortised cost R'000	Available- for-sale R'000	Amortised cost/ (financial liabilities) R'000	Non- financial instruments R'000	Total carrying amount R'000	Fair value of financial instruments R'000
<b>GROUP</b>								
<b>30 June 2008</b>								
Cash and cash equivalents	-	-	189 606	-	-	-	189 606	189 606
Trade and other receivables	-	-	17 430	-	-	92	17 522	17 430
Derivative financial assets	40 815	-	-	-	-	-	40 815	40 815
	40 815	-	207 036	-	-	92	247 943	
Trade and other payables	-	-	-	-	18 396	-	18 396	18 396
Tenant deposits	-	-	-	-	5 579	-	5 579	5 579
Retentions	-	-	-	-	2 960	-	2 960	2 960
Interest-bearing borrowings	-	-	-	-	279 726	-	279 726	279 726
Debentures	-	-	-	-	1 157 912	-	1 157 912	
Debenture interest payable	-	-	-	-	85 236	-	85 236	85 236
	-	-	-	-	1 549 809	-	1 549 809	
<b>30 June 2007</b>								
Cash and cash equivalents	-	-	7 527	-	-	-	7 527	7 527
Trade and other receivables	-	-	10 922	-	-	2 521	13 443	10 922
Derivative financial assets	10 504	-	-	-	-	-	10 504	10 504
	10 504	-	18 449	-	-	2 521	31 474	
Trade and other payables	-	-	-	-	12 550	591	13 141	12 550
Tenant deposits	-	-	-	-	1 758	-	1 758	1 758
Retentions	-	-	-	-	3 042	-	3 042	3 042
Vendors on purchase of property	-	-	-	-	40 325	-	40 325	40 325
Interest-bearing borrowings	-	-	-	-	250 570	-	250 570	250 570
Debentures	-	-	-	-	858 929	-	858 929	
Debenture interest payable	-	-	-	-	55 972	-	55 972	55 972
	-	-	-	-	1 223 146	591	1 223 737	

24. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

	Held for trading R'000	Designated at fair value R'000	Loans and receivables at amortised cost R'000	Available-for-sale R'000	Amortised cost (financial liabilities) R'000	Non-financial instruments R'000	Total carrying amount R'000	Fair value of financial instruments R'000
<b>COMPANY</b>								
<b>30 June 2008</b>								
Loan to subsidiary	-	-	1 490 738	-	-	-	1 490 738	1 490 738
Trade and other receivables	-	-	-	-	-	80	80	-
	-	-	1 490 738	-	-	80	1 490 818	
Trade and other payables	-	-	-	-	522	-	522	522
Debentures	-	-	-	-	1 157 912	-	1 157 912	
Debenture interest payable	-	-	-	-	85 236	-	85 236	85 236
	-	-	-	-	1 243 670	-	1 243 670	
<b>30 June 2007</b>								
Loan to subsidiary	-	-	976 435	-	-	-	976 435	976 435
Trade and other receivables	-	-	3 356	-	-	-	3 356	3 356
	-	-	979 791	-	-	-	979 791	
Debentures	-	-	-	-	858 929	-	858 929	
Debenture interest payable	-	-	-	-	55 972	-	55 972	55 972
	-	-	-	-	914 901	-	914 901	

# Segmental information

for the year ended 30 June 2008

## 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 remaining 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
<b>Income statement – 30 June 2008</b>					
Segment revenue	108 676	79 345	12 573		200 594
Expenditure				(26 851)	(26 851)
Segment operating results	108 676	79 345	12 573	(26 851)	173 743
Net finance cost				(169 379)	(169 379)
Profit/(loss) before fair value adjustments and taxation	108 676	79 345	12 573	(196 230)	4 364
Fair-value adjustments	155 092	103 157	10 900	25 947	295 096
Profit/(loss) before taxation	263 768	182 502	23 473	(170 283)	299 460
Taxation				(71 017)	(71 017)
Segment result	263 768	182 502	23 473	(241 300)	228 443
<b>Income statement – 30 June 2007</b>					
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/(loss) 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/(loss) 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

R'000	Fixed lease agreements	C-Corp lease agreements	Variable lease agreements	Corporate	Total
<b>Balance sheet – 30 June 2008</b>					
<b>Non-current assets</b>					
Investment properties	1 252 200	893 380	114 100	–	2 259 680
Derivative asset				40 815	40 815
<b>Current assets</b>					
Trade and other receivables	1 843	13 221	775	1 683	17 522
Cash and cash equivalents				189 606	189 606
<b>Segment assets</b>	<b>1 254 043</b>	<b>906 601</b>	<b>114 875</b>	<b>232 104</b>	<b>2 507 623</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Debentures				1 157 912	1 157 912
Interest-bearing liabilities				279 726	279 726
Deferred taxation				186 824	186 824
<b>Current liabilities</b>					
Trade and other payables	4 942	17 751	–	4 242	26 935
Debenture interest payable				85 236	85 236
<b>Segment liabilities</b>	<b>4 942</b>	<b>17 751</b>	<b>–</b>	<b>1 713 940</b>	<b>1 736 633</b>
<b>Balance sheet – 30 June 2007</b>					
<b>Non-current assets</b>					
Investment properties	865 000	700 159	103 200	–	1 668 359
Derivative asset				10 504	10 504
<b>Current assets</b>					
Trade and other receivables	950	5 199	775	6 519	13 443
Cash and cash equivalents				7 527	7 527
<b>Segment assets</b>	<b>865 950</b>	<b>705 358</b>	<b>103 975</b>	<b>24 550</b>	<b>1 699 833</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Debentures				858 929	858 929
Interest-bearing liabilities				250 570	250 570
Deferred taxation				115 807	115 807
<b>Current liabilities</b>					
Trade and other payables	4 576	6 260	–	47 430	58 266
Debenture interest payable				55 972	55 972
<b>Segment liabilities</b>	<b>4 576</b>	<b>6 260</b>	<b>–</b>	<b>1 328 708</b>	<b>1 339 544</b>

## Segmental information continued

for the year ended 30 June 2008

### Group segmental analysis

Secondary segment

R'000	Gauteng	Western Cape	KwaZulu- Natal	Eastern Cape	Mpu- malanga	Corporate	Total
<b>Income statement – 30 June 2008</b>							
Segment revenue	98 454	38 964	41 550	16 426	5 200		200 594
Expenditure						(26 851)	(26 851)
Segment operating results	98 454	38 964	41 550	16 426	5 200	(26 851)	173 743
Net finance cost						(169 379)	(169 379)
Profit/(loss) before fair value adjustments and taxation	98 454	38 964	41 550	16 426	5 200	(196 230)	4 364
Fair-value adjustments	139 816	80 857	43 106	(42)	1 048	30 311	295 096
Profit/(loss) before taxation	238 270	119 821	84 656	16 384	6 248	(165 919)	299 460
Taxation						(71 017)	(71 017)
Segment result	238 270	119 821	84 656	16 384	6 248	(236 936)	228 443
<b>Income statement – 30 June 2007</b>							
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/(loss) 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/(loss) 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

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	Corporate	Total
<b>Balance sheet – 30 June 2008</b>							
<b>Non-current assets</b>							
Investment properties	1 155 500	458 600	435 380	140 200	70 000	–	2 259 680
Derivative asset						40 815	40 815
<b>Current assets</b>							
Trade and other receivables	2 416	82	–	7	–	14 904	17 409
Cash and cash equivalents						189 606	189 606
<b>Segment assets</b>	<b>1 157 916</b>	<b>458 682</b>	<b>435 380</b>	<b>140 207</b>	<b>70 000</b>	<b>245 325</b>	<b>2 507 510</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Debentures						1 157 912	1 157 912
Interest-bearing liabilities						279 726	279 726
Deferred taxation						186 824	186 824
<b>Current liabilities</b>							
Trade and other payables	13 063	2 523	3 208	1 073	793	6 275	26 935
Debenture interest payable						85 236	85 236
<b>Segment liabilities</b>	<b>13 063</b>	<b>2 523</b>	<b>3 208</b>	<b>1 073</b>	<b>793</b>	<b>1 715 973</b>	<b>1 736 633</b>
<b>Balance sheet – 30 June 2007</b>							
<b>Non-current assets</b>							
Investment properties	806 700	325 559	344 800	134 000	57 300	–	1 668 359
Derivative asset						10 504	10 504
<b>Current assets</b>							
Trade and other receivables	4 065	890	1 283	670	–	6 535	13 443
Cash and cash equivalents						7 527	7 527
<b>Segment assets</b>	<b>810 765</b>	<b>326 449</b>	<b>346 083</b>	<b>134 670</b>	<b>57 300</b>	<b>24 566</b>	<b>1 699 833</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Debentures						858 929	858 929
Interest-bearing liabilities						250 570	250 570
Deferred taxation						115 807	115 807
<b>Current liabilities</b>							
Trade and other payables	500	1 270	2 372	1 055	–	53 069	58 266
Debenture interest payable						55 972	55 972
<b>Segment liabilities</b>	<b>500</b>	<b>1 270</b>	<b>2 372</b>	<b>1 055</b>	<b>–</b>	<b>1 334 347</b>	<b>1 339 544</b>

# 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 2011, 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	205	28,20	96 924	0,16	190	11,06	98 020	0,16
1 001 – 10 000	355	48,83	1 299 141	2,11	1 196	69,62	5 161 700	8,38
10 001 – 100 000	88	12,10	2 925 915	4,75	268	15,60	6 555 125	10,64
100 001 – 1 000 000	67	9,22	21 155 595	34,35	54	3,14	17 185 327	27,90
1 000 001 units and over	12	1,65	36 113 512	58,63	10	0,58	32 590 915	52,92
<b>Total</b>	<b>727</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 718</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>
<b>Distribution of unitholders</b>								
Banks	2	0,28	7 449	0,01	2	0,12	133 451	0,22
Close corporations	8	1,10	11 163	0,02	18	1,05	57 404	0,09
Empowerment	3	0,41	17 036 177	27,66	2	0,12	10 774 595	17,49
Endowment funds	21	2,89	792 822	1,29	32	1,86	971 872	1,58
Individuals	402	55,30	1 194 913	1,94	1 224	71,20	7 050 391	11,45
Insurance companies	10	1,38	2 028 553	3,29	17	0,99	9 640 133	15,65
Investment companies	5	0,69	242 959	0,39	10	0,58	553 878	0,90
Medical schemes	5	0,69	466 856	0,76	2	0,12	32 491	0,05
Mutual funds	56	7,70	25 996 291	42,21	52	3,03	18 750 848	30,44
Nominees and trusts	130	17,88	1 458 860	2,37	238	13,85	4 519 082	7,34
Other corporations	7	0,96	58 448	0,09	26	1,51	210 665	0,34
Private companies	30	4,13	288 991	0,47	50	2,91	4 053 091	6,58
Public companies	2	0,28	3 547	0,01	4	0,23	31 202	0,05
Pension funds	45	6,19	11 820 701	19,19	50	2,91	4 614 726	7,49
Manco holdings	1	0,14	183 357	0,30	1	0,06	197 258	0,32
	<b>727</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 718</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>
<b>Public/non-public unitholders</b>								
<b>Non-public unitholders</b>	<b>10</b>	<b>1,38</b>	<b>19 723 881</b>	<b>32,02</b>	<b>9</b>	<b>0,52</b>	<b>12 909 678</b>	<b>20,96</b>
Directors and associates of company holdings	6	0,83	2 504 347	4,07	6	0,35	1 937 825	3,15
Empowerment	3	0,41	17 036 177	27,66	2	0,12	10 774 595	17,49
Manco holdings	1	0,14	183 357	0,30	1	0,06	197 258	0,32
<b>Public unitholders</b>	<b>717</b>	<b>98,62</b>	<b>41 867 206</b>	<b>67,98</b>	<b>1 710</b>	<b>99,48</b>	<b>48 681 409</b>	<b>79,04</b>
	<b>727</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 719</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>
<b>Beneficial unitholders holding 5% or more</b>								
Old Mutual							14 523 812	23,58
Metope Investments Holdings (Pty) Limited							3 494 760	5,67
Metropolitan							3 169 988	5,15
Nobuntu Investments II (Pty) Limited			9 513 012	15,45			9 513 012	15,45
Coronation Fund Managers			7 532 174	12,23				
STANLIB			5 614 443	9,12				
Nobuntu Investments (Pty) Limited			5 000 000	8,12				
Prudential			3 078 457	5,00				
<b>Totals</b>			<b>30 738 086</b>	<b>49,92</b>			<b>30 701 572</b>	<b>49,85</b>

# 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 fourth annual general meeting of shareholders of Hospitality Property Fund Limited will be held at The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank on Friday, 31 October 2008 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 2008 together with the reports of the directors and auditor thereon.
2. To re-elect the following directors, who in terms of the company's articles of association retire by rotation, and being eligible, offer themselves for re-election:

#### **W J Midgley**

BA LLB (UCT)

Mr Midgley is an attorney (admitted 1985), conveyancer and notary and has had extensive experience in the fields of general commercial law, mergers, acquisitions and JSE and SRP issues, with particular emphasis on property law and the listed property sector. He joined Edward Nathan in 1991 and resigned as a director in June 2006, to join Pangbourne Properties Limited ('Pangbourne'), which he had been advising for a number of years. Mr Midgley recently resigned as a director of Pangbourne as a result of a board reconstitution.

Mr Midgley was intimately involved in the listing of Hospitality, while at Edward Nathan, and is familiar with the Hospitality group.

#### **Z N Kubukeli**

PhD (Human Biology) (UCT)

BSc (Medicine) (UCT)

BSc (Biochemistry and Microbiology) (UCT)

Dr Kubukeli completed his Doctorate in Physiology at the University of Cape Town ('UCT') and MRC Research Unit at the Sports Science Institute of South Africa in 2001, after completing a BSc Honours degree in Science of Medicine and a BSc degree in Biochemistry and Microbiology at UCT.

Dr Kubukeli was a regional property manager of Atlas Property Services (Pty) Limited, the management company of Atlas Properties Limited, between 1999 and 2002 and was until 2004 executive director of Brait Specialised Funds, the hedge fund division of the Brait Group. Dr Kubukeli is currently executive director – strategy and acquisitions of Pan-African Capital Holdings (Pty) Limited.

Dr Kubukeli has extensive knowledge, skills and expertise in the fields of property and fund management, company and financial statement analysis and business strategy.

- 3. To authorise the audit committee to determine and pay the remuneration of the auditor and finalise their terms of engagement.
- 4. To approve the non-executive directors’ fees payable for the period 1 July 2008 to 30 June 2009.

It is proposed that the following fees be paid:

	Chairman R'000	Member R'000
Director (per annum)	149	119
Audit committee (per annum)	38	30
BEE committee (per annum)	15	12
Investment committee (per meeting)	7	6

The above fees have been benchmarked against an industry survey and increased accordingly. The increase in the fees of the audit committee chairman and members is further justified by the committee’s multifold roll as remuneration and risk committees and the audit committee’s increased responsibility in terms of recent and ongoing legislative changes.

- 5. To approve the re-appointment of KPMG Inc. (with the designated auditor being Leigh Wormald) as auditor of the company until the conclusion of the next annual general meeting. The audit committee is of the opinion that KPMG are independent of the company and nominate their re-appointment.
- 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 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 (reported trades are prohibited); [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 issued 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)]

## Notice of annual general meeting of shareholders continued

- d) repurchases may not take place during a prohibited period as defined in the JSE Listings Requirements unless the company has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; [5.72(g)]
- e) the company will still comply with the linked unitholder spread requirements set out in the Listings Requirements of the JSE; [3.37]
- f) 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; [5.79]
- g) 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 after the date of the general repurchase; [5.69(c) (i)] [11.26 (d) (i)]
- h) the company and the group's assets, fairly valued in accordance with the accounting policies used in the latest audited consolidated annual financial statements, will exceed the liabilities of the company and the group for a period of 12 months after the date of the general repurchase;
- i) the company's and the group's share capital and reserves will be sufficient to meet their needs for a period of 12 months after the date of the general repurchase;
- j) the company and the group will have sufficient working capital to meet their needs for a period of 12 months after the date of the general repurchase; [5.69(iv)] [11.26(d) (iv)]
- k) upon entering the market to proceed with the repurchase, the company's sponsor has confirmed the adequacy of the company and the group's working capital in writing to the JSE; [2.12 and Schedule 25]
- l) at any point in time, the company may only appoint one agent to effect any repurchases on the company's behalf. [5.72(e)]

### **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.

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 and management – pages 22 and 23 [7.B.1]
- Major beneficial linked unitholders – page 71 [7.A.27]
- Directors interests in linked units – page 36 [7.B.20]
- Share and debenture capital of the company – pages 49 and 50 [7.A.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)(vi)]

The directors, whose names appear on pages 22 and 23 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 law 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 pages 22 and 23 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 Ordinary resolution number 1: Control of authorised but unissued shares**

"Resolved that the unissued "A" shares and "B" shares in the authorised capital of the company be and are hereby placed under the control and authority of the directors of the company to allot and issue, subject to the Companies Act, the company's memorandum and articles of association and the Listings Requirements of the JSE, to such person(s) and upon such terms and conditions as the directors may determine:

- 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 companies owning immovable property;
- provided that the directors are not authorised to issue more "A" shares and "B" shares than such number of "A" shares and "B" shares that constitute 20% 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 shareholders for particular acquisitions) and provided that each "A" share shall be linked to one "A" debenture and that each "B" share shall be linked to one "B" debenture, such authority to expire at the next annual general meeting of the company."

**Reason for and effect of ordinary resolution number 1**

The reason for requesting authority from shareholders to place 20% of the number of "A" shares and "B" shares in the company's unissued share capital under directors' control, is motivated by the average annual value of property acquisitions made by Hospitality since its listing on the JSE Limited in 2006. The acquisitions consummated to date have been in line with Hospitality's objective of growing its investment portfolio in a controlled manner through the addition of quality assets which further diversify the portfolio and which have the potential to enhance unitholder returns. The aggregate open market valuation surplus to cost of these acquisitions has been approximately 28%. Prime properties in the hospitality industry in South Africa are scarce and consequently, when such a property does come onto the market, it is essential for the Fund to be able to move timeously to capitalise on the acquisition opportunity. Placing these shares under the control of the directors will enhance the Fund's ability to grow its asset base in line with its stated strategy.

# Notice of annual general meeting of shareholders continued

## 6.3 Ordinary resolution number 2: 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 shareholder 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 shareholder of the company. For the convenience of registered shareholders 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.

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, every member of the company shall have one vote for every share held in the company by such member.

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 shareholders must not use a form of proxy.

The transfer secretaries of the company, namely Computershare Investor Services (Pty) Limited, must receive forms of proxy by no later than 10:00 on Wednesday, 29 October 2008. 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 (Pty) Limited**

Secretaries

21 August 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 which units 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 2008 annual general meeting of the company to be held The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank, on Friday, 31 October 2008 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 2008 annual financial statements			
2.1 Re-election of Mr W M Midgley			
2.2 Re-election of Dr Z N Kubukeli			
3. Auditor's remuneration			
4. To approve the non-executive directors' fees for 2009			
5. Re-appointment of KPMG Inc. as auditor			
6.1 <b>Special resolution number 1:</b> repurchase of shares			
6.2 <b>Ordinary resolution number 1:</b> control of authorised but unissued shares			
6.3 <b>Ordinary resolution number 2:</b> authority to sign documents			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2008

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 (excluding Saturdays, Sundays and public holidays) 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 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 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 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 shall not accept a proxy unless he is satisfied as to the matter in which a shareholder wishes to vote.
12. This form of proxy must be lodged or posted or faxed to the transfer secretaries, Computershare Investor Services (Pty) Limited, 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, 29 October 2008.

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

# Shareholders' diary

<b>Event</b>	<b>Date</b>
Financial year end	30 June
Annual general meeting	31 October 2008
Announcement of interim results (published and posted)	February
Announcement of annual results (published)	August
Annual report posted to unitholders	September

<b>Distribution timetable</b>	<b>Date</b>
<i>Distribution No. 5 for the year ended 30 June 2008</i>	
Declaration date	21 August 2008
Last date to trade <i>cum</i> interest	5 September 2008
Linked units will trade <i>ex</i> interest	9 September 2008
Record date	12 September 2008
Payment date of interest distribution	15 September 2008
 <i>Distribution No. 6 for the six months ending 31 December 2008</i> <i>(Expected dates)</i>	
Declaration date	19 February 2009
Last date to trade <i>cum</i> interest	6 March 2009
Linked units will trade <i>ex</i> interest	9 March 2009
Record date	13 March 2009
Payment date of interest distribution	16 March 2009

# Management and administration

## 1. FUND AND ASSET MANAGER

### Hospitality Property Fund Managers (Pty) Limited (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 53% of the Fund's revenue is based on fixed leases with operators while an estimated 41% 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 6% 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) Limited (Grapnel) (53,4%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (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 cash flow 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 cash flow from operations for each financial year is calculated as the profit before taxation for Hospitality Manco adjusted for non-cash flow items and changes to working capital less taxation paid; plus

- 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***

Majormatic 194 (Pty) Limited (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 119 hotels in eight countries falling within the Protea Hotels stable. The company was founded in 1984 and has grown its portfolio and brands since.

## Management and administration *continued*

The company concluded a BEE transaction in 2005, which resulted in a 54% BEE shareholding in the company. In 2007 the Stella Group from Australia acquired 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 Rosebank, The Winkler, Mount Grace Country House & Spa, The Richards, The Bayshore Inn, Imperial Hotel, Hluhluwe Hotel & Safaris and Hazyview Hotel.

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 42 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 240 hotels in operation and under development with approximately 50 000 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.

#### **Premier Hotels and Resorts International**

The King David Hotel in East London is managed by Premier Hotels and 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 Hotel & OR Tambo 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 and 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) Limited  
3 on Glenhove  
Cnr Glenhove Road and Tottenham Avenue  
Melrose Estate  
Johannesburg  
(PO Box 522195, Saxonwold, 2132)  
Tel: +27 11 994 6320  
Fax: +27 11 994 6321

## REGISTERED OFFICE

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

## BANKERS

Absa Bank Limited  
The Diamond Building  
11 Diagonal Street  
Newtown  
Johannesburg  
(PO Box 42023, Fordsburg, 2033)

## INDEPENDENT AUDITOR

KPMG Inc.  
KPMG Crescent  
85 Empire Road  
Parktown, Johannesburg  
(Private Bag 9, Parktown, 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 (Pty) Limited  
Ground Floor  
70 Marshall Street  
Johannesburg, 2001  
(PO Box 61051, Marshalltown, 2107)



*Hospitality*  
PROPERTY FUND