

# Hospitality

PROPERTY FUND

HOSPITALITY PROPERTY FUND ANNUAL REPORT 2009



*Annual Report 2009*



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Hospitality Property Fund Limited



## *Financial highlights*

*Distribution per A-linked  
unit 110,76 cents*

**↑** *5%*

*Distribution per B-linked  
unit 152,65 cents*

**↓** *8,1%*

*Property portfolio R3,4 billion*

**↑** *R1,1 billion*

*Property acquisitions total*

*R421 million*

*Development projects total*

*R532 million*

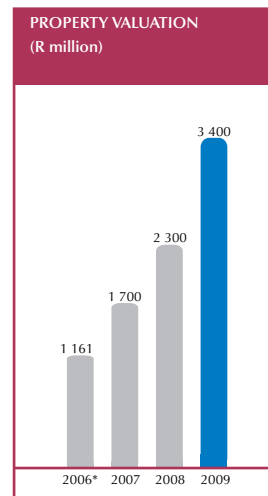
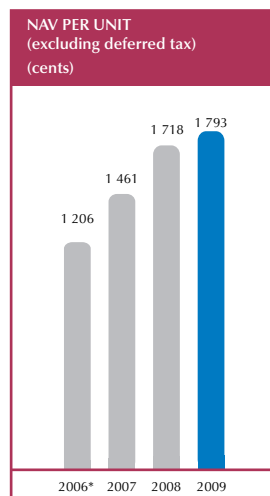
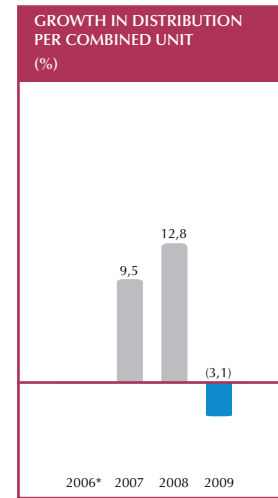
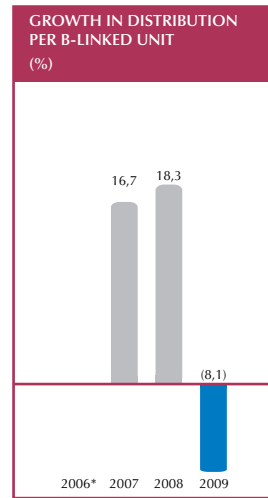
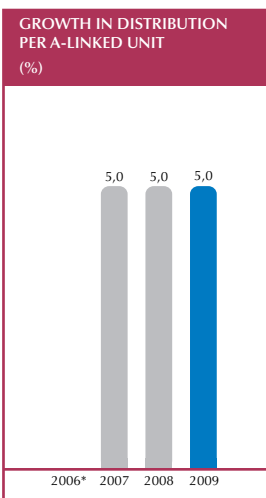
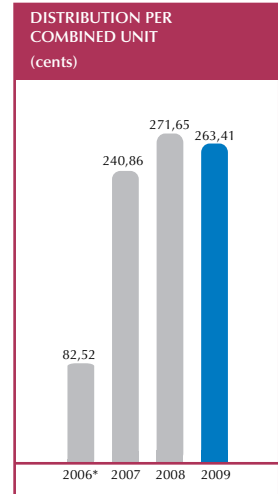
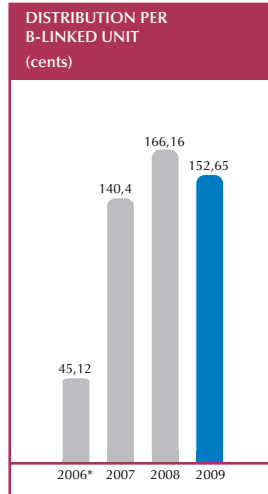
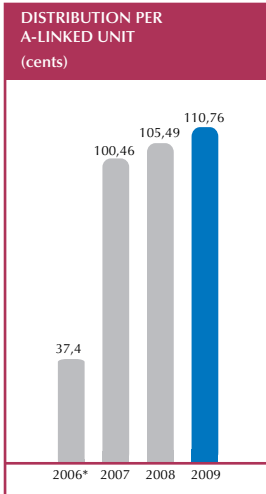


## Four-year overview

	June 2009	June 2008	June 2007	June 2006*
Distribution per A-linked unit (cents)	<b>110,76</b>	105,49	100,46	37,4
Growth in distribution per A-linked unit (%)	<b>5,0</b>	5,0	5,0	–
Weighted average number of A-linked units in issue during the year (million)	<b>61,59</b>	56,64	39,53	36,17
Distribution per B-linked units (cents)	<b>152,65</b>	166,16	140,4	45,12
Growth in distribution per B-linked unit (%)	<b>(8,1)</b>	18,3	16,7	–
Weighted average number of B-linked units on issue during the year (million)	<b>61,59</b>	56,64	39,53	36,17
Distribution per combined unit (cents)	<b>263,41</b>	271,65	240,86	82,52
Growth in distribution per combined unit (%)	<b>(3,1)</b>	12,8	9,5	–
Weighted average number of combined units in issue during the year (million)	<b>123,18</b>	113,28	79,06	72,34
Property valuation (R million)	<b>3 400</b>	2 300	1 700	1 161
Gearing (R million)	<b>1 013</b>	280	251	251
Gearing to property value (%)	<b>29,8</b>	12,2	14,8	21,6
NAV per unit (excluding deferred tax) (cents)				
A-linked	<b>1 793</b>	1 718	1 461	1 206
B-linked	<b>1 793</b>	1 718	1 461	1 206
Closing market price (cents)				
A-linked	<b>1 101</b>	1 065	1 421	1 100
B-linked	<b>1 389</b>	1 490	2 060	1 020
(Discount)/premium to NAV (%)				
A-linked	<b>(38,6)</b>	(38,0)	(2,7)	(8,8)
B-linked	<b>(22,5)</b>	(13,2)	41,0	(15,5)
Growth/(decline) in unit price (%)				
A-linked	<b>3,4</b>	(25,1)	29,2	10,0
B-linked	<b>(6,8)</b>	(27,7)	102,0	2,0
Total return (%)				
A-linked	<b>13,8</b>	(17,6)	38,3	13,7
B-linked	<b>3,5</b>	(19,6)	115,7	6,5
PLS index at year end (J253)	<b>289</b>	243	336	240
Change on previous year (%)	<b>18,9</b>	(27,7)	40,2	17,3
Percentage of gross lettable income (%)				
C-Corp	<b>44,0</b>	41,0	34,0	29,0
Fixed	<b>50,4</b>	53,0	58,0	62,4
Variable	<b>5,6</b>	6,0	8,0	8,6
Number of properties	<b>23</b>	22	21	16

\*4½ months reporting period.

# Overview highlights



\*4½ months reporting period.





*Crowne Plaza Johannesburg – The Rosebank*





## *Fund manager's report*

### *HIGHLIGHTS*

The effect of the global financial crisis that is being felt across all sectors of the South African economy became acutely evident in the hospitality industry in the latter part of last year.

The travel sector was particularly hard hit with hotel occupancies dropping dramatically along with a number of airlines cutting back on flights and the car-hire industry reducing their fleet sizes to adjust for the substantial decline in travellers from both an international and domestic perspective.

The drop-off in travel was more significant in the latter half of the reporting period and despite a number of high profile sporting events, the entry of a number of new competitor properties into the market coupled with the downturn in travel had a significant negative impact on the hotels' operating performance.

Albeit that the results achieved for the year ending June 2009 were in line with the hospitality industry generally and trends in the broader economy, they are nonetheless somewhat disappointing. The A-linked units' distribution 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 declined by 8,1% against the prior year.

Approximately 25% of the Fund's earnings are derived from lease income which is linked to the operational performance of the hotel properties. This decline in distribution of the B-linked unit was primarily as a result of the unfavourable trading conditions prevailing in the hotel and leisure industry for the period under review.

### *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 portfolio consists of investments in 23 hotel and resort properties throughout South Africa.

The Fund has an equal number of A- and B-linked units in issue with the A-linked units having a preferential claim to distributions, whilst the B-linked units receive the balance of the distribution. 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, up until December 2008, consistently posted results in excess of market expectations. During this reporting period the Fund successfully acquired the 301 bedroom "Holiday Inn Sandton – Rivonia Road" for R410 million. This property commenced trading in September 2008 and was transferred to the Fund with effect from 26 September 2008.

The Fund is managed by Hospitality Property Fund Managers (Pty) Limited ('Hospitality Manco') which has a dedicated executive management team with a wealth of experience in the hospitality and property sectors. On 19 August 2009, Hospitality reached an agreement with the shareholders of Hospitality Manco to acquire all of the issued shares of and shareholders' claims against Hospitality Manco with effect from the date on which the transaction is implemented. This transaction is subject to various conditions precedent, including the requisite approval of linked unitholders.

## REVIEW OF TRADING CLIMATE

### Economic and financial overview

The South African economy initially appeared to be weathering the global downturn, supported by a stable banking sector and healthy state finances. The country had been sitting on relatively strong fundamentals and emerging from a protracted period of economic expansion but inevitably followed other economies into decline in the second half of last year.

The meltdown exposed a number of vulnerabilities. Household indebtedness had reached worrying levels in a low-interest rate environment and inflationary pressures mounted. Moreover, severe energy shortages and a tense political climate had developed. The crisis has also impacted the real economy. House prices have been declining, along with vehicle sales. Manufacturing production has slowed, the mining sector is shrinking further, and retrenchments are on the increase. The South African economy contracted for the third consecutive quarter in the three months through June 2009 with the seasonally adjusted gross domestic product (GDP) contracting by an annualised 3,0% in the second quarter, compared with a 6,4% fall in the first quarter. Finance, real estate and business services fell for the second straight quarter, constrained by tight credit. Meanwhile, wholesale, retail, hotels and restaurants lost ground for a fifth consecutive quarter, suffering from the broad deceleration of activity and dampened consumer demand.

On the positive side, South Africa's construction industry expanded at a robust pace and managed to provide the largest contribution to the economy, thanks to strong government construction spending in preparation for the Football World Cup in 2010.

Another positive development is the moderating inflation pressures, which has given the South African Reserve Bank enough room to cut interest rates by 500 basis points since December. This monetary stimulus should help steer the economy toward recovery in the second

half of 2009. Nonetheless, with manufacturing, finance and trade still in decline, the pace and nature of the recovery remain uncertain, as these industries account for nearly half of GDP. With joblessness on the rise, domestic demand will likely remain subdued in the second half of the year. Ongoing labour disputes and frequent strikes also add downside risk to the outlook and deteriorating public finances have limited the government's ability to mount an aggressive fiscal stimulus beyond the current, massive R787 billion public infrastructure programme.

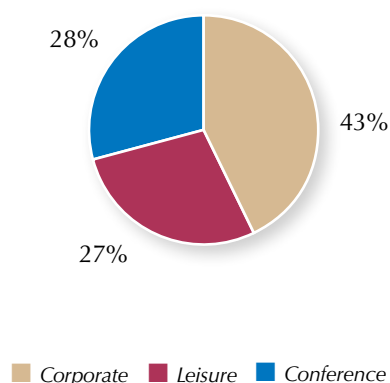
### Hospitality sector overview

The Fund has a diverse source market with roughly 71% of room nights being sold to domestic guests and the remaining 29% to foreign guests. In respect of patronage by source markets, corporate travellers account for 43%, leisure for 28% and incentive or conference markets 29%.

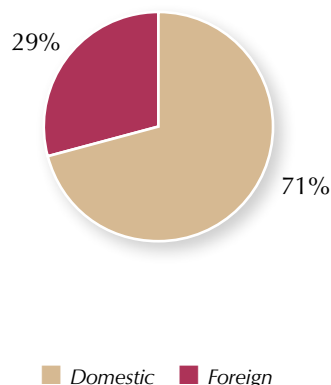
As expected, the negative trend in international tourism that emerged during the second half of 2008 intensified in 2009. According to the United Nations World Tourism Organisation, international tourist arrivals grew by 1,8% in 2008, which is a significant drop-off from the growths experienced of 6,6% in 2007 and 5,4% in 2006. The numbers for the first four months of this year reflect a sharp drop since January of 8% overall as a direct result of the global economic crisis. Moreover, this decline is expected to have continued through to the end of June, due to the sector's strong first half-year performance in 2008. The outlook for the remainder of the year is somewhat more optimistic with the projections suggesting a 1,3% decline in arrivals for the full year.

Foreign tourist arrivals growth in South Africa slowed to 5,5% in 2008 from 8,3% in 2007 but was still above the global average growth of 1,8%. The year to date figures for the six months to June 2009 indicate nominal growth in total foreign arrivals of 1%, made up of a decline of 9,5% in overseas arrivals and

PATRONAGE BY MARKET SEGMENT



PATRONAGE BY SOURCE MARKET



positive growth of 4,1% from mainland Africa. This is somewhat more positive than the global scenario and can in part be attributed to a number of major sporting events that have taken place in South Africa over the past few months.

While the effect on bed nights sold from these events was somewhat limited, the successful hosting of the Indian Premier League cricket tournament, British Lions Tour and Confederations cup, bodes well for the hosting of the World Cup 2010 (“WC 2010”). The Fund has concluded a sound commercial deal for the 2010 event with Tourvest Holdings (Pty) Limited for the following hotels: Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Mount Grace Country House & Spa, Protea Hotel Imperial, Protea Hotel – The Richards and Protea Hotel – The Winkler. The major users of this accommodation will be main event sponsors which will ensure that the rooms are utilised throughout the 37 day period of the bookings. The rest of the portfolio has signed agreements with MATCH Accommodation Services except for the Protea Hazyview and Protea Hluhluwe which are geared to attract non WC2010 leisure business.

Domestic travel decreased in 2008 by 8% with 32,9 million trips being undertaken against 35,9 million trips undertaken last year. The numbers indicate 47% of the South African adult population (14 million domestic tourists up from 13 million in 2007) travelled, indicating more people travelled fewer times. The revenue generated from domestic tourism in 2008 is R25,8 billion, an increase of 29% over the R20 billion spent in 2007. Adjusting for inflation, this reflects a growth in real terms of 17%. Visiting Friends and Family ‘VFR’ remains the main reason for travel, accounting

for 71% of all trips undertaken in South Africa and 48% of revenue generated. Holiday travel accounted for 16% of domestic trips and 39% of revenues generated. Business travel showed a decline to 5% from 7% in the previous period and 12% of revenue generated also down from the prior 14%.

The domestic travel market has seen corporate South Africa cut their travel budgets in line with the rest of the world and fewer travellers, are now making use of lower graded establishments. Government travel which traditionally was one of the strongest market segments all but came to a halt for the three months leading up to the elections which in turn also negatively impacted the conference and incentive markets. The high number of public holidays together with the national elections resulted in particularly poor performance for the month of April. The Fund saw all three market segments (corporate, conference and leisure) decline simultaneously for the first time since the Fund’s inception. The lack of disposable income placed pressure on the leisure segment with fewer guests opting to stay for shorter periods. According to the Smith Travel Research Global Hotel Benchmark report, average occupancies in South Africa for all hotels for the first six months of 2009 declined by 13,5% compared to the same period in 2008. The 5 and 4-star markets indicate the largest deterioration which is evidence of the ‘trading down’ syndrome and with Cape Town and Johannesburg showing the largest declines when it comes to areas negatively affected by the economic downturn.

A number of new hotel developments are due to come on stream in the early part of 2010 which is a departure from the past several years where the

# Fund manager's report

*continued*

number of new hotels coming into the market was low. This will undoubtedly result in a further softening of occupancies in certain areas with the attendant risk of rate discounting to secure business. The areas which are the most exposed in terms of new developments are greater Sandton, OR Tambo International Airport precinct, Fourways, Pretoria East, Umhlanga Ridge, Cape Town CBD, Cape Town Waterfront and Century City. There is concern as to the sustainability of many of these new hotels, which in many instances are being managed by global operators.

## Listed property sector review

The South African listed property industry has remained fairly resilient through the financial crisis relative to its global counterparts. Around the world REITs were caught unaware when they failed to successfully roll-over existing debt facilities and were forced to go to the market to raise additional capital to shore up balance sheets. In comparison the balance sheets of South African listed property companies are in good shape with an average loan-to-value ratio of 25% to 30% and a limited need to roll-over significant portions of their existing debt facilities.

However, property fundamentals have weakened with a rise in vacancies across all sectors, a decline in rental growth and increasing levels of arrears and tenant defaults. The commercial property market typically lags the business cycle which should see rentals moving sideways for the next 12 to 18 months. The hotel industry on the other hand tends to be more aligned with the general economy and should typically respond much quicker to any improvement in business conditions.

Whilst the local property sector has benefited from strong balance sheets the sudden lack of liquidity has

undoubtedly resulted in a contraction of transactional activity. The sudden slowdown in the economy during the latter half of the reporting period with little prospect of short-term recovery is placing pressure on a number of already over-stretched property investors which together with significantly tighter bank lending policies may present attractive acquisition opportunities in the coming 6 to 12 months.

At year end the listed property sector was trading at a historic yield of 9,3% which assuming consensus growth forecasts of approximately 6,5% per annum over the medium term results in a forward yield of approximately 9,9%. This compares favourably to 12-month cash deposit rates of approximately 8,4% and long-term bond yields of around 8,5%.

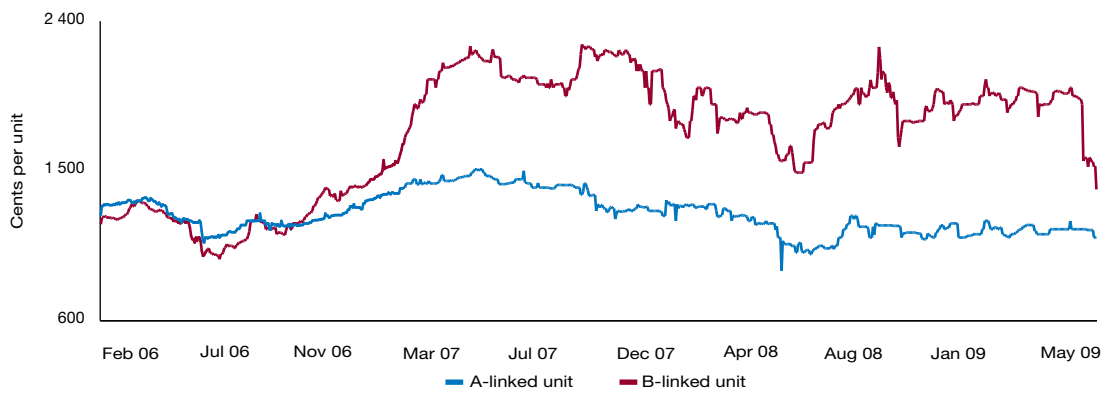
## Results

Total distributable earnings for the year decreased by 3% compared to 2008. The A-linked units' annual distribution of 110,76 cents grew by 5% over the previous year, in line with the Fund's distribution structure. The B-linked units' distribution equated to 152,65 cents which reflects a decline of 8,1% year on year. This decline was primarily due to lower than anticipated rentals received from properties under variable leases during the last six months of the financial year.

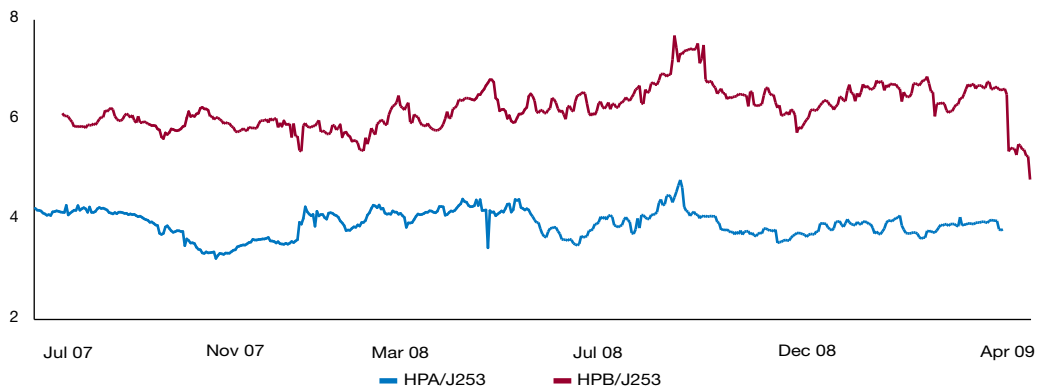
The Fund's linked unit prices have largely traded in line with the listed property sector over the period under review. The exception to this was a substantial drop-off (30%) in the B-linked unit price during the latter part of June 2009, directly as a consequence of the Fund releasing a trading update once it became clear that distributable earnings for the period were likely to be materially lower than the previous year.



### HOSPITALITY UNIT PRICE PERFORMANCE



### LINKED UNIT PERFORMANCE RELATIVE TO LISTED PROPERTY INDEX (J253)



# Fund manager's report

continued

## Property portfolio

At 30 June 2009 the Fund's property portfolio consisted of interests in 23 hotel and resort properties throughout 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 properties include interests in six properties which accounted for 50% of total rental income for the reporting period. These properties include the Birchwood Hotel & OR Tambo Conference Centre, Champagne Sports Resort, Kopanong Hotel and Conference Centre, Park Inn Greenmarket Square, Premiere Hotel King David and the Radisson Blu Hotel Waterfront. Rentals under fixed lease agreements are determined by contractual lease terms with inflationary escalations. The lease on the Birchwood Hotel & OR Tambo Conference Centre also includes a turnover component.

There are a total of twelve C-Corp lease properties, which contributed 44% of total rentable income for the reporting period. The C-Corp lease properties are the Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Mount Grace Country House & Spa, Protea Hotel Victoria Junction, Protea Hotel Marine, Protea Hotel The Richards, Protea Hotel The Winkler,

Protea Hotel Hazyview, Protea Hotel Richards Bay, Protea Hotel Hluhluwe & Safaris, Protea Hotel Imperial and The Bayshore Inn. C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being 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 these properties is based directly on EBITDA. For the reporting period, these properties contributed 6% to total rental income.

The average daily room rate achieved for the C-Corp and variable lease properties (i.e. those linked to operational performance) during the period was R853 at room occupancy of 56%, which equates to a Revenue per available room of R480. This compares to an average daily rate of R708 at a room occupancy of 68% and a RevPAR of R481 for the previous year. The properties were fully let throughout the reporting period. And the average lease expiry is 7,63 years. The historic trading yields at year end were 10,06% and 10,99% for the A- and B-linked units respectively.



# Fund manager's report

continued

## Property valuation and net asset value

As at 30 June Hospitality's property portfolio was independently valued at R3,40 billion which represents an increase of R1,14 billion over the prior reporting period's R2,26 billion. The growth in portfolio value was mainly due to acquisitions of R422 million, and development expenditure of R532 million. The aggregate growth in value on cost of the portfolio over an approximate three year period amounts to 36%.

The net asset valuation (NAV) per linked unit as at year end was R17,93 per linked unit (excluding deferred tax), which equates to an increase of 4,4% in NAV per linked unit from June 2008.

At year end, the combined units were trading at a 44% discount to NAV.

## Acquisitions

During the reporting period, the Fund acquired the 301 bedroom Holiday Inn Sandton – Rivonia Road for R410 million. This hotel was acquired in September 2008. During the reporting period the Fund also acquired a further interest in Champagne Sports Resort to the value of R11,5 million.

The Holiday Inn was independently valued at R462 million at year end representing a valuation surplus of 12%. The further interest in Champagne Sports Resort comprised an additional 200 timeshare weeks and an enlargement of the restaurant and conference areas. The acquisitions are forecast to be growth enhancing for the Fund.

The acquisitions were funded by way of the Fund's existing debt facilities and in respect of the Holiday Inn Sandton, have 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.

## Refurbishment, upgrades and expansions

A total of R532 million was spent on refurbishing and enlarging the Fund's existing portfolio of hotels to strategically position these properties for maximum long-term growth.

On completion of The Rosebank Hotel redevelopment, the hotel was branded as the first Crowne Plaza in South Africa and is now part of Intercontinental Hotels Group (IHG). The Crowne Plaza Johannesburg – The Rosebank was completed at a cost of R312 million. The expansion and refurbishment of the Mount Grace Country House & Spa at a cost of R145 million was completed in June 2009. The new conference centre and hotel refurbishment at Protea Hotel The Winkler was completed in April 2009 at a cost of R28 million. The refurbishments of the three properties in Richards Bay were also completed towards the end of the financial year at a combined cost of R47 million.

Management have taken the decision to delay proposed refurbishments to the Protea Hotel Victoria Junction in Cape Town, Protea Hotel Marine in Port Elizabeth and Protea Hotel Imperial until after the World Cup 2010 to avoid any disruption to operations during this period.

## 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 to continue to diversify the portfolio in terms of geographic location, patronage and star grading.

The Fund currently has several potential property acquisitions under consideration and it is envisaged that a number of further acquisition opportunities could come to the fore after the World Cup 2010.

## Borrowings

The Fund's weighted average cost of debt for the year was 10,2% and the gearing ratio at 30 June 2009 was 29,8% of total property value.



During the 2008 calendar year the Fund restructured its borrowings by entering into various interest-rate-swap agreements as detailed below. In compliance with International Financial Reporting Standards (IFRS) these swap agreements have been valued on a mark-to-market basis. The derivative liability of R70,4 million

compared to an asset value of R 40,8 million at June 2008 gives rise to a fair value adjustment of R111,2 million being charged to the income statement. This fair value adjustment has no effect on the distribution to linked unitholders but adversely affects both the earnings and headline earnings.

	All-in Fixed Rate (%)	Commencement Date	Maturity Date
R 253 million*	10,45	April 2008	May 2012
R 150 million	11,45	August 2008	August 2013
R 150 million**	11,15	December 2008	December 2011
R 249 million***	11,97	September 2008	September 2015
R 170 million	11,33	September 2008	September 2018
<b>R 972 million</b>			

\* Extendable at the option of the funder to May 2014

\*\* Extendable at the option of the funder to December 2013

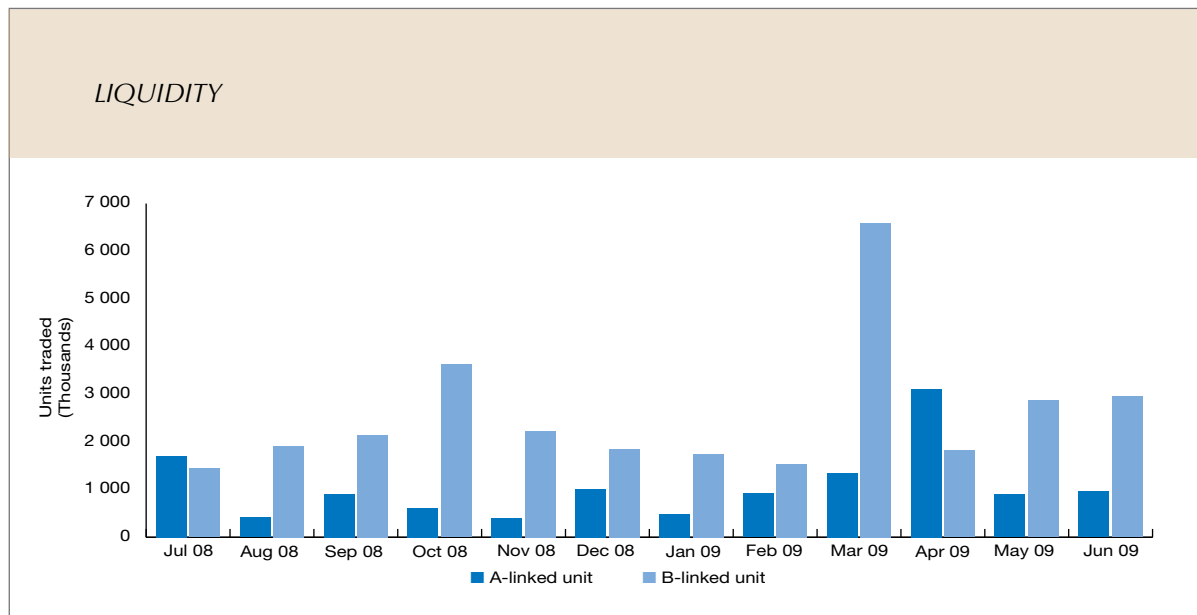
\*\*\* Step up swap structure – weighted average rate

### Black Economic Empowerment

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

### Liquidity

Of the Fund's units in issue, 33,9% were traded during the reporting period. The B-linked units remained more liquid with some 49,9% of the units in issue being traded; whilst 17,8% of the A-linked units in issue were traded during the same period.





Holiday Inn



123 Rivonia Rd

ENTRANCE





*Holiday Inn Sandton – Rivonia Road*



## Manco internalisation

Over the past few years there has been a significant shift from externally to internally managed property companies, both internationally and in South Africa.

Hospitality has been externally managed since its listing in February 2006 and the appointment of an experienced external asset manager with the requisite skills and expertise has enhanced Hospitality's performance and growth over this period. However, the board and management of Hospitality believe the company is now at a stage where it is preferable to internalise its asset management.

The advantages of internalising Hospitality's asset management include:

- the yield enhancement that will result from the lower costs of internal management;
- the elimination of the perceived conflicts of interest inherent in an external asset management arrangement; and
- the further alignment of the interests of the key management of Hospitality with the interests of the Hospitality unitholders.

In terms of the asset management agreement, Hospitality has an option to acquire the equity in Hospitality Manco for a price essentially arrived at by escalating the after tax cash flow from Hospitality Manco's operations for the previous 12 months by CPI for a six year forecast period and discounting the forecast cash flows by the average yield of Hospitality over the previous 12 months.

If the option formula was applied in respect of the 12 months ended 30 June 2009 it would result in an option price of approximately R175,8 million. However the parties have agreed to apply an amended pricing formula that is not based on the results for a single 12 month period but takes into account

the sustainable results of Hospitality Manco on the following basis:

- a value for Hospitality Manco will be calculated in respect of each of the 12 months ended 30 June 2009, 2010, 2011 and 2012 (the "2009, 2010, 2011 and 2012 values") on essentially the same basis as set out in the option formula; and
- the purchase price for the Hospitality Manco equity shall be an amount equivalent to the average of the 2009, 2010, 2011 and 2012 values, provided that this will be subject to a minimum purchase price of R123 million and a maximum purchase price of R180 million (escalated at CPI between the effective date and 30 June 2012).

The purchase price shall be discharged as follows:

- the minimum purchase price of R123 million (the "minimum price") will be paid to the sellers in cash after the fulfilment of the conditions precedent and after the implementation of any issue of Hospitality units for cash required to fund the payment of the minimum price (the "implementation date"). The sellers shall be obliged to utilise R41 million of the minimum price to subscribe for A and B units on the closing date at the volume weighted average price at which the units traded for the 30 days ("30 day VWAP") preceding the implementation date;
- the balance of the purchase price, if any, (the "top up payment") will be paid to the sellers in cash within 30 days of the issue of the audited financial statements of Hospitality for the 12 months ending 30 June 2012: provided that, if Hospitality does not have sufficient cash resources to settle the top up payment when it becomes due, Hospitality shall be entitled to discharge all or part of the top up payment by the issue of Hospitality linked units at a 10% discount to the 30 day VWAP preceding the date on which the top up payment is paid.

# Fund manager's report

continued

As part of the transaction, the Hospitality CEO, Gerald Nelson has undertaken to remain the CEO of Hospitality at least until 30 June 2012 and both Gerald Nelson and executive director (and former deputy CEO) Youseph Aminzadeh are restrained from forming any other listed or unlisted hotel property fund in South Africa until 30 June 2015.

Hospitality's CEO Gerald Nelson and executive director Youseph Aminzadeh, between them have a 70% indirect beneficial interest in Hospitality Manco. Accordingly, in terms of the listings requirements of the JSE, the transaction is a related party transaction, requiring an independent fairness opinion and the approval of Hospitality linked unitholders, other than the related parties and their associates.

In this regard, the board has appointed Java Capital to provide an independent opinion as to the fairness of the transaction to unitholders. Details of Java Capital's opinion will be included in the circular to be posted to unitholders in relation to the transaction.

The transaction is subject to fulfilment or, where permitted, waiver of the following conditions precedent:

- the requisite approval of unitholders to implement the transaction and to issue the requisite units to fund the minimum price and, if due, the top-up payment;
- the receipt by the company of a binding tax ruling from the South African Revenue Services or a written opinion from a tax advisor acceptable to the board, confirming that the transaction can be structured on a basis that ensures that the interest on any debt raised or debentures issued to fund the transaction will be deductible;
- all regulatory approvals required for the implementation of the transaction; and

- receipt of written undertakings from investors to subscribe for linked units in Hospitality Manco to the extent required to fund the payment of the minimum purchase price.

The sellers also own the shares in Hospitality Hotel Management Company (Pty) Limited ('HHMC') and Majomatic 194 (Pty) Limited ('C-Corp').

HHMC manages certain of Hospitality's hotels. This function is distinct from the asset management function conducted by Hospitality Manco and HHMC is, indirectly, an important service provider to Hospitality.

The board is of the view that external hotel management (where the company can choose between hotel managers depending upon the hotel and the circumstances) is in line with international best practice and is a preferable model to internalised hotel management. In order to reduce any potential conflicts of interest in the HHMC relationship and to ensure that HHMC retains the management skills and capacity to provide the requisite hotel management services to Hospitality after the implementation of the transaction:

- Gerald Nelson has agreed to resign as director of HHMC and have no further executive role in HHMC for so long as he is CEO of Hospitality; and
- Youseph Aminzadeh will no longer be an executive director of Hospitality (although he will remain a non-executive director of the board) and will take an executive role within HHMC until 30 June 2012 in order to build the long term management capacity within HHMC.

C-Corp is a tenant of the Hospitality group in respect of the so-called "C-Corp leases". As part of the transaction, Hospitality will undertake a comprehensive



review of the C-Corp relationship in order to remove any potential conflicts of interest that may result from the C-Corp arrangement. In order to facilitate any steps that the board may elect to take in this regard, the sellers have granted Hospitality an option to acquire all of their equity in C-Corp at its net asset value.

A circular containing further details of the transaction, including the independent fairness opinion referred to above, will be sent to Hospitality linked unitholders in due course.

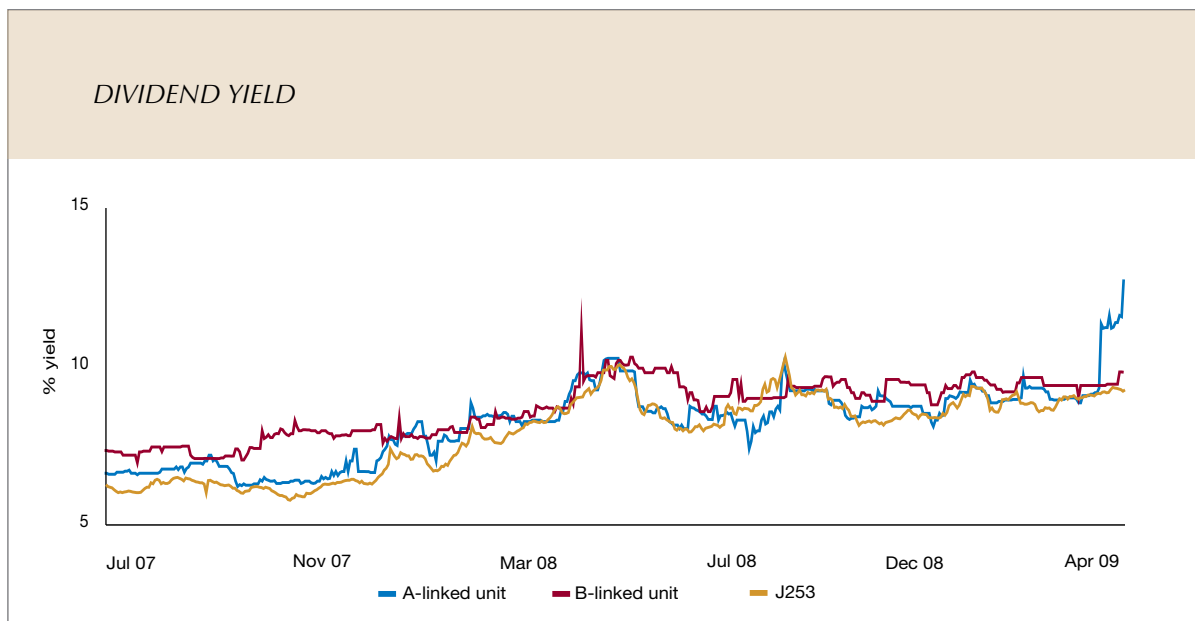
**Prospects**

Despite the interest rate declines, the outlook for the property sector remains challenging. A continuing recessionary environment, budgetary constraints in the corporate and government sectors as well as limited personal disposable income is likely to result in continuing pressure on both occupancies and average room rates for the remainder of 2009. The outlook for

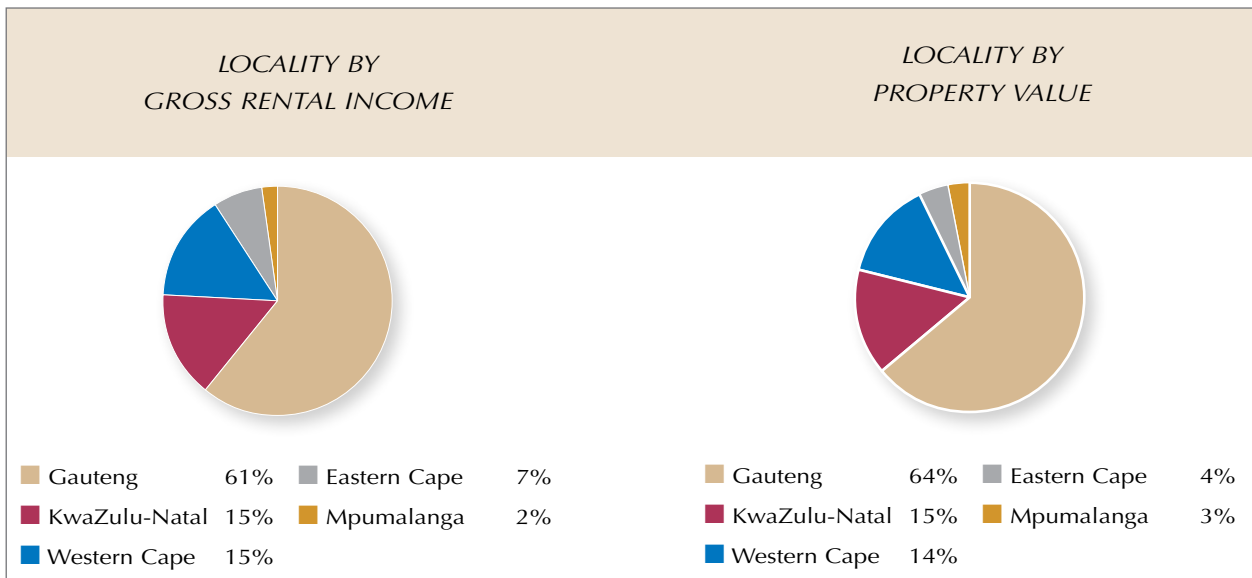
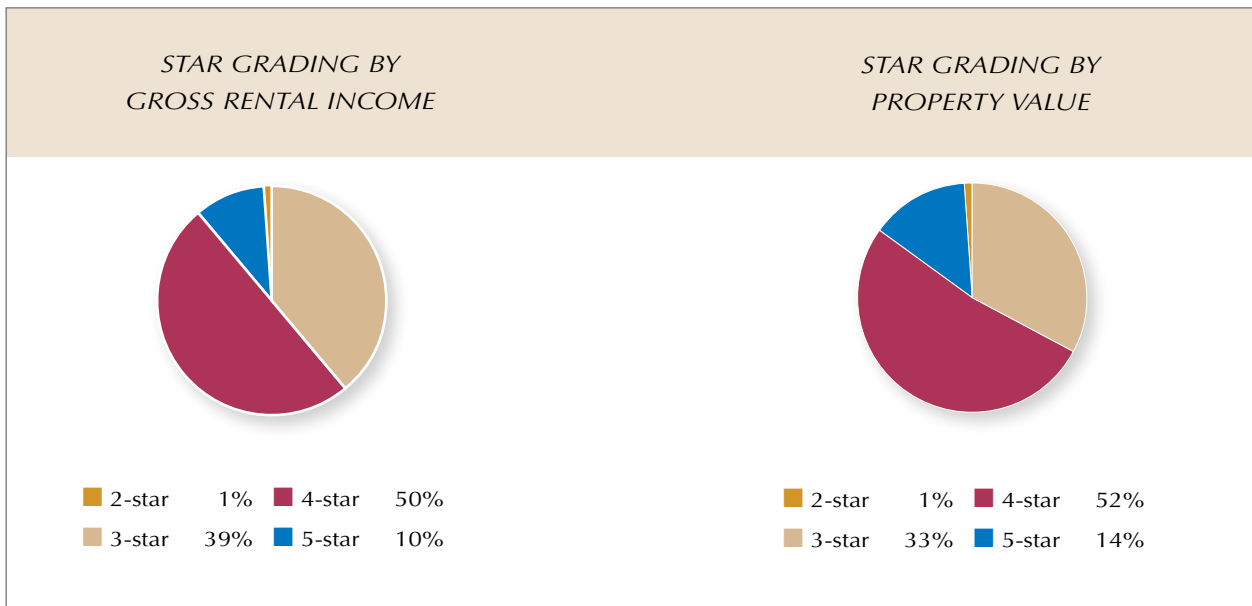
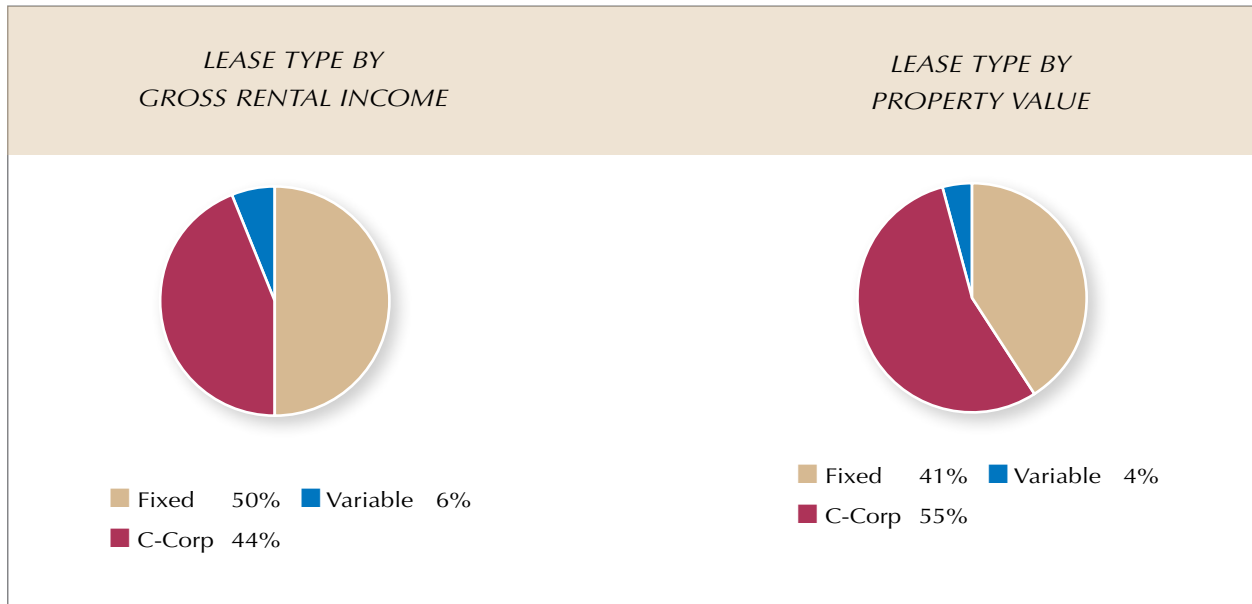
calendar year 2010 is more positive with the prospect of economic recovery and enhanced returns as a result of the lead up to and the event of the FIFA World Cup 2010. It is important to note, however, that only half of the event will take place within the 2010 financial year. The refurbished portfolio is well positioned to benefit from improved market activity in the future.

**Appreciation**

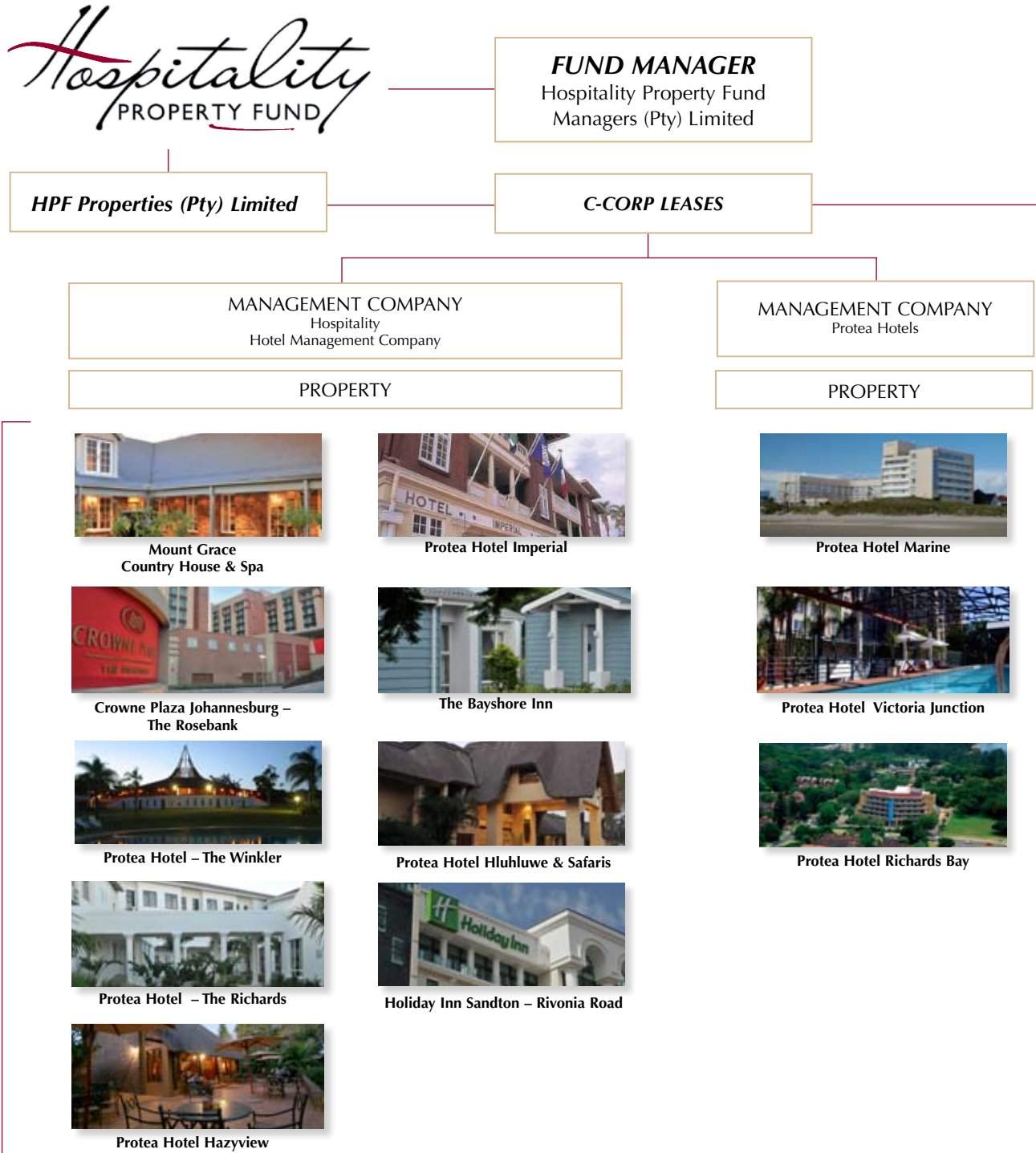
Management would like to take this opportunity to thank all employees of the Fund and the various Tenants along with employees of the Hotel Management Companies involved in running the day to day operations. This year has been extremely challenging and despite numerous development projects the Group is now well positioned to benefit from the Tourism upturn in line with the major events planned for this coming financial year.



# *Salient features*



# Group structure



**VARIABLE LEASES**

TENANT  
City Lodge Hotels

PROPERTY



**Courtyard Arcadia**  
(50% owned)



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



**Courtyard Eastgate**  
(50% owned)



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



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

**FIXED LEASES**

PROPERTY



**Birchwood Executive Hotel  
and Conference Centre**



**Champagne Sports Resort**



**Kopanong Hotel and  
Conference Centre**



**The Park Inn Hotel**



**Premiere King David**



**Radisson Hotel Waterfront**  
(90 units owned and one wellness spa)

## Property portfolio details *investment properties summary – 30 June 2009*

	Property title	HPF ownership	Property location	Star grading	No. of rooms	Book value 30 June 2008 R	Capitalised cost for the year R	
<b>C-Corp lease</b>								
	Crowne Plaza Johannesburg – The Rosebank	Freehold	Direct	Rosebank, Johannesburg, Gauteng	4	318	143 000 000	320 435 314
	Holiday Inn Sandton – Rivonia Road	Freehold	Direct	Sandton, Gauteng	4	301		412 480 663
	Mount Grace Country House & Spa	Freehold	Direct	Magaliesburg, Gauteng	5	121	167 000 000	123 247 494
	Protea Hotel Victoria Junction	Freehold	Sectional title units <sup>1</sup>	Waterfront, Cape Town, Western Cape	4	172	172 000 000	597 533
	Protea Hotel Marine	Freehold	Direct	Port Elizabeth, Eastern Cape	4	98	94 000 000	206 821
	Protea Hotel – The Richards	Freehold	Direct	Richards Bay, KwaZulu-Natal	4	135	84 600 000	13 373 067
	Protea Hotel Imperial	Freehold	Direct	Pietermaritzburg, KwaZulu-Natal	3	70	47 000 000	1 671 575
	Protea Hotel Hazyview	Freehold	Direct	Hazyview, Mpumalanga	3	87	51 000 000	1 019 835
	Protea Hotel – The Winkler	Freehold	Direct	White River, Mpumalanga	3	87	19 000 000	23 960 467
	Protea Hotel Richards Bay	Freehold	Direct	Richards Bay, KwaZulu-Natal	3	66	53 000 000	8 723 985
	The Bayshore Inn	Freehold	Direct	Richards Bay, KwaZulu-Natal	2	102	28 000 000	21 033 863
	Protea Hotel Hluhluwe & Safaris	Freehold	Direct	Hluhluwe, KwaZulu-Natal	3	75	34 780 000	1 099 626
	<b>Total C-Corp lease</b>						<b>893 380 000</b>	<b>927 850 242</b>
<b>Fixed lease</b>								
	Birchwood Executive Hotel and Conference Centre	Freehold	Direct	Boksburg, Gauteng	3	450	628 000 000	–
	Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg, KwaZulu-Natal	4	112	188 000 000	11 506 000
	Radisson Hotel Waterfront	Freehold	Sectional title units <sup>2</sup>	Waterfront, Cape Town, Western Cape	5	182	185 000 000	–
	Kopanong Hotel and Conference Centre	Freehold	Sectional title units <sup>3</sup>	Benoni, Gauteng	4	228	113 000 000	–
	The Park Inn Hotel	Freehold	Direct	Cape Town CBD, Western Cape	3	165	92 000 000	–
	Premiere King David	Freehold	Direct	East London, Eastern Cape	3	80	46 200 000	596 448
	<b>Total fixed lease</b>						<b>1 252 200 000</b>	<b>12 102 448</b>
<b>Variable lease</b>								
	Courtyard Arcadia	Freehold	50% in the shareblock	Arcadia, Pretoria, Gauteng	4	69	32 800 000	–
	Courtyard Cape Town	Leasehold	50% in the shareblock	Mowbray, Cape Town, Western Cape	4	70	9 600 000	–
	Courtyard Eastgate	Freehold	50% in the shareblock	Bruma Lake, Johannesburg, Gauteng	4	69	27 500 000	–
	Courtyard Rosebank	Freehold	32% in the shareblock	Rosebank, Johannesburg, Gauteng	4	83	24 900 000	–
	Courtyard Sandton	Freehold	26% in the shareblock	Sandton, Gauteng	4	69	19 300 000	–
	<b>Total variable lease</b>						<b>114 100 000</b>	<b>–</b>
	<b>GRAND TOTAL</b>						<b>2 259 680 000</b>	<b>939 952 690</b>

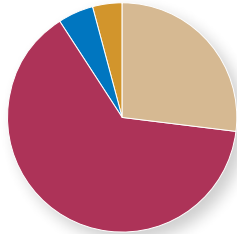
<sup>1</sup> Sectional title units (84% units in the scheme).

<sup>2</sup> Sectional title units (49% of accommodation units).

<sup>3</sup> Sectional title (80% of units in the scheme).

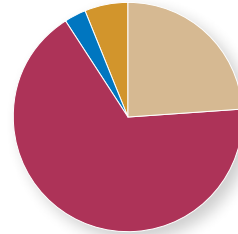
Revaluation surplus/-(deficit) R	Valuation 30 June 2009 R	Discount rate %	Terminate cap rate %	Date of acquisition	Acquisition cost R	Capitalised cost post-acquisition R	Total cost R	Surplus/(deficit) on valuation to cost R	% growth on cost
(1 435 314)	462 000 000	14,5	9,5	Feb 06	70 000 000	320 794 961	390 794 961	71 205 039	18,2
49 519 337	462 000 000	14,5	9,0	Sep 08	409 247 981	3 232 682	412 480 663	49 519 337	12,0
(17 247 494)	273 000 000	14,5	10,5	Feb 06	122 562 500	152 518 978	275 081 478	(2 081 478)	(0,8)
16 402 468	189 000 000	15,0	10,0	Feb 07	108 961 056	2 928 337	111 889 393	77 110 607	68,9
8 793 179	103 000 000	15,0	11,5	Feb 06	73 000 000	8 695 128	81 695 128	21 304 872	26,1
2 926 933	100 900 000	15,0	10,0	Feb 07	63 137 802	16 901 055	80 038 857	20 861 143	26,1
15 328 425	64 000 000	15,0	11,0	Mar 07	24 456 607	4 065 910	28 522 517	35 477 483	124,4
(1 019 835)	51 000 000	15,0	10,0	Apr 07	41 508 574	2 864 673	44 373 247	6 626 753	14,9
3 039 533	46 000 000	15,0	10,0	Feb 06	10 000 000	34 225 409	44 225 409	1 774 591	4,0
(19 723 985)	42 000 000	15,0	10,0	Feb 06	23 000 000	12 023 247	35 023 247	6 976 753	19,9
(9 033 863)	40 000 000	15,0	10,0	Feb 07	12 333 119	25 990 288	38 323 407	1 676 593	4,4
374	35 880 000	15,0	11,0	Jul 07	28 219 247	4 167 135	32 386 382	3 493 618	10,8
<b>47 549 758</b>	<b>1 868 780 000</b>				<b>986 426 886</b>	<b>588 407 803</b>	<b>1 574 834 689</b>	<b>293 945 311</b>	<b>18,7</b>
107 000 000	735 000 000	14,5	11,5	Feb 06	400 859 436	-	400 859 436	334 140 564	83,4
17 494 000	217 000 000	15,0	10,5	Feb 06	141 506 000	-	141 506 000	75 494 000	53,4
4 000 000	189 000 000	14,0	9,5	Feb 06	133 416 525	-	133 416 525	55 583 475	41,7
6 000 000	119 000 000	15,0	11,5	Feb 06	78 130 000	-	78 130 000	40 870 000	52,3
9 000 000	101 000 000	15,0	10,5	Feb 06	63 361 611	-	63 361 611	37 638 389	59,4
3 203 552	50 000 000	15,5	12,5	Feb 06	52 000 000	789 434	52 789 434	(2 789 434)	(5,3)
<b>146 697 552</b>	<b>1 411 000 000</b>				<b>869 273 572</b>	<b>789 434</b>	<b>870 063 006</b>	<b>540 936 994</b>	<b>62,2</b>
8 700 000	41 500 000	15,0	10,8	Feb 06	19 300 000	-	19 300 000	22 200 000	115,0
(2 200 000)	7 400 000	15,0		Feb 06	7 125 000	-	7 125 000	275 000	3,9
(1 500 000)	26 000 000	15,0	11,0	Feb 06	9 400 000	-	9 400 000	16 600 000	176,6
3 758 000	28 658 000	15,0	10,8	Feb 06	12 180 130	-	12 180 130	16 477 870	135,3
1 614 000	20 914 000	15,0	10,5	Feb 06	8 662 610	-	8 662 610	12 251 390	141,4
10 372 000	124 472 000				56 667 740	-	56 667 740	67 804 260	119,7
<b>204 619 310</b>	<b>3 404 252 000</b>				<b>1 912 368 198</b>	<b>589 197 237</b>	<b>2 501 565 435</b>	<b>902 686 565</b>	<b>36,1</b>

LEASE EXPIRY PERIOD BY GROSS RENTAL INCOME



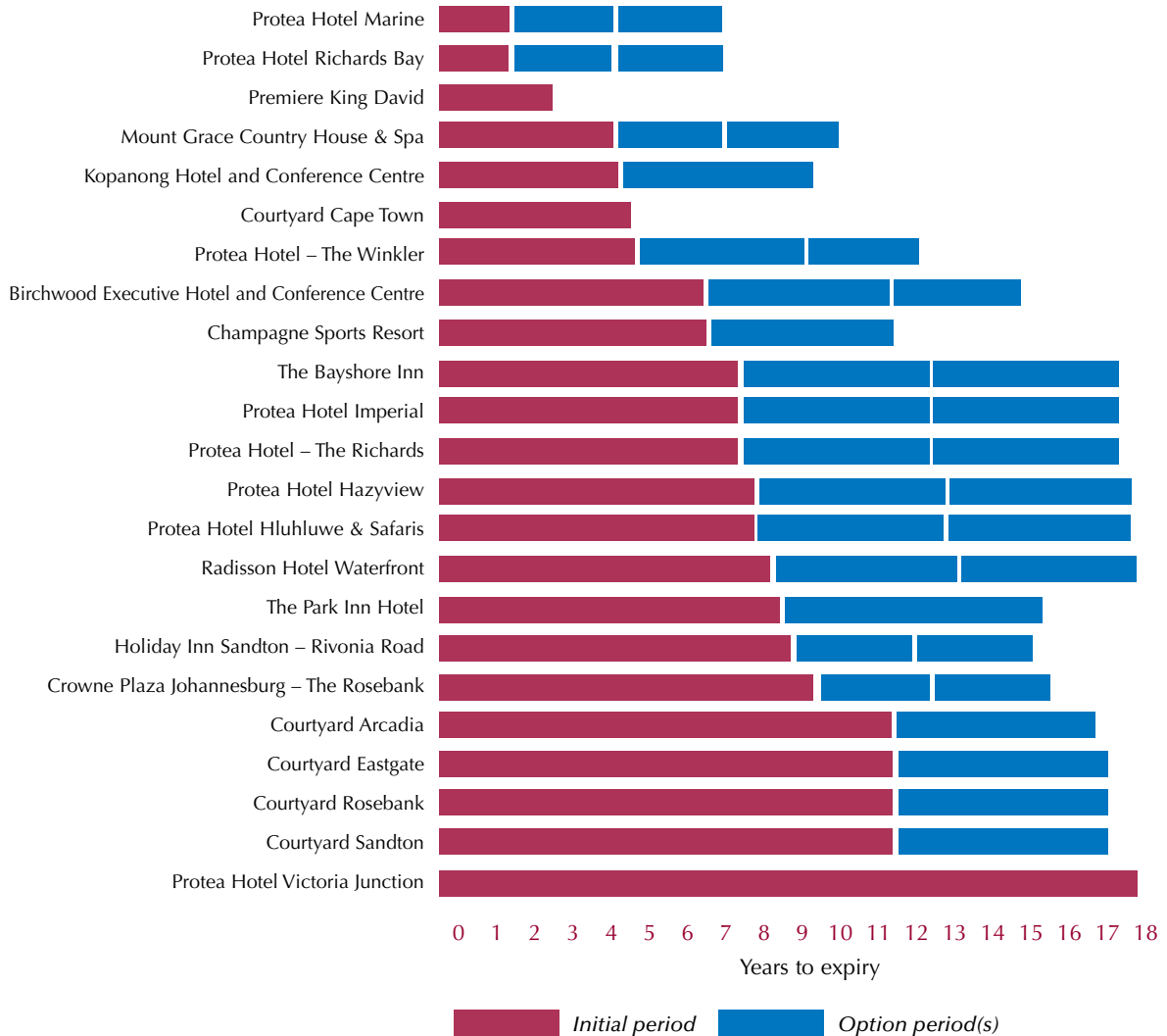
1 – 5 years 27% 11 – 15 years 5%  
 6 – 10 years 64% 16 – 20 years 4%

LEASE EXPIRY PERIOD BY PROPERTY VALUE



1 – 5 years 24% 11 – 15 years 3%  
 6 – 10 years 67% 16 – 20 years 6%

LEASE EXPIRY PROFILE

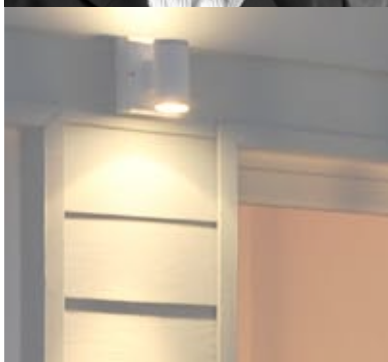


## Directorate



### **1. Tim Sewell, Chairman**

Tim was appointed to the board in 2006. Tim is also the chairman of Sycom Property Fund Managers Limited, the asset management company of Sycom. Tim headed corporate finance at UAL Merchant Bank Limited, later Nedcor Investment Limited and became a director in 1985. He was divisional director – Head of Operations until retiring in 1999.



### **2. Gerald Nelson, Chief Executive Officer**

Gerald was appointed to the board prior to the listing of the Fund in 2006. Gerald was involved in the original conceptualisation, assembly and listing of the Fund. He is a prior managing director of Sycom Property Fund Managers (Pty) Limited, the management company of Sycom. He is currently the Managing Director of Grapnel Property Group (Pty) Limited and a non-executive director of Sycom.



### **3. Youseph Aminzadeh, Executive Director**

Youseph is the prior deputy chief executive officer of Hospitality and was appointed to the board prior to the listing of the Fund in 2006. Youseph was involved in the original conceptualisation and assembly of the Fund and was the managing director of Horwath Tourism & Leisure Consulting. He has written articles on various aspects of the tourism and hospitality sectors and has served on various industry committees and forums.



### **4. Ridwaan Asmal, Financial Director**

Ridwaan has over 16 years of experience in the listed property sector in South Africa and was employed by the property asset management company of Freestone Property Holdings Limited prior to joining Hospitality in 2006, where he was responsible for financial reporting, financial operations of the listed property fund and facilitation of acquisitions and disposals.



### **5. Brenda Madumise, Independent Non-executive Director**

Brenda is the chairman of the BEE committee and has been a director of Hospitality since 2006. She is an admitted advocate of the High Court of South Africa and serves on various boards, amongst others Randgold and Exploration Company Limited, T-Sec (financial services company) and the South African Nuclear Corporation (NECSA). She is also the Chairman of the National Arts Council and Bayport Financial Services.

6



**6. Kamil Abdul-Karrim, Independent Non-executive Director**

Kamil was appointed a director of Hospitality prior to the listing of the Fund in 2006. He is the chairman of the investment committee and also serves on the audit committee. Kamil is currently the Managing Director of Pam Golding Tourism and Hospitality Consulting (Pty) Limited and a non-executive director of Quantum Property Group Limited.

7



**7. Willy Ross, Independent Non-executive Director**

Willy was appointed a director of Hospitality in April 2007. He is the chairman of Hospitality's audit committee and has over 30 years' experience in the merchant and investment banking industry and was, until his retirement, responsible for the Project and Structured Finance and Private Equity departments of Nedcor Investment Bank Limited as well as its Risk and Compliance functions. Post-retirement Willy has accepted directorships on a number of listed and unlisted companies including Kagiso Media Limited, Vunani Limited and Capital Property Fund (Chairman).

8



**8. Andrew Rogers, Deputy Chief Executive Officer**

Andrew has over 18 years of operational experience in the hospitality and tourism industries. Prior to joining Hospitality in January 2007 as chief operating officer, he was a director of operations with Southern Sun Hotels. During his career Andrew has been with the City Lodge Group, Cullinan Hotels and prior to joining Hospitality he held several positions at Southern Sun Hotels. Andrew was appointed deputy chief executive officer of Hospitality in February 2009.

9



**9. William Midgley, Non-executive Director**

William was a director at Edward Nathan from 1991 to 2006, specialising in commercial property and SRP and JSE matters, where he was intimately involved with the listing of Hospitality in 2005/06. He joined Pangbourne Properties Limited, which he had been advising for a number of years, as an executive director in 2006. He resigned at the end of 2007, following a reconstitution of the board. William joined Hospitality as a non-executive director in January 2008. He has practised as a director of Mkhabela Huntley Adekeye Inc, Attorneys, since April 2009.

10



**10. Zuko Kubukeli, Independent Non-executive Director**

Zuko 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 an executive director of Brait Specialised Funds, the hedge fund division of the Brait Group. Zuko was appointed to the board of Hospitality in June 2008 and is currently also an executive director – strategy and acquisitions of Pan-African Capital Holdings (Pty) Limited and a principal of two private equity funds, Inspired Evolution Fund, the first cleantech fund in Africa and Pan-African Private Equity Fund One.

## Refurbished property review



### **MOUNT GRACE COUNTRY HOUSE & SPA**

After an 18-month, R145 million makeover, including a two-month closure to facilitate the reconstruction of the public areas, the refurbishment was completed in June 2009. This comprised a complete refurbishment of the existing 81 units, the construction of 41 new additional rooms (12 luxury villas and 29 luxury room types) as well as a new conference centre, new reception and administration block as well as a complete renovation of the restaurants, bar, lounge and kitchen areas. The refurbishment which has received widespread acclaim has seen the retention of a classical design theme but with the introduction of contemporary fabrics and colours. Each bedroom now has had the latest in-room technology with LCD televisions, 26 TV channels, coffee machines, digital safes and the latest energy-reduction technology.

The new conference centre with a capacity of 250 delegates opened on 14 July 2009. This should greatly enhance the resort's ability to host larger conferences and assist in attracting the mid-week incentive markets. The resort is also proving popular

with the week-end wedding market from the Gauteng and Pretoria areas.

The acclaimed Rambling Vine restaurant is currently receiving rave reviews with executive chef Franc Lubbe responsible for the epicurean delights and the Twist all day buffet restaurant has proven immensely successful with the week-end markets in particular.

The award-winning Spa has, since the enlargement of the treatment facilities and addition of a state of the art fitness centre, seen a dramatic increase in volumes.

All staff accommodation facilities were reconstructed during the refurbishment and new laundry facilities added to assist management in reducing the operating costs at the resort. New water treatment plants also have assisted in the environmental management programme and utilise the "grey" water for irrigation purposes in the newly landscaped gardens. The generator capacity was also enhanced to allow for full uninterrupted service to the estate in the event of a power outage.



### **CROWNE PLAZA JOHANNESBURG – THE ROSEBANK**

Following its R312 million refurbishment the hotel was branded on 7 May 2009 as a Crowne Plaza. This followed the completion of the final leisure offerings being the opening of The Seven Colours Spa and Health & Fitness facility featuring the very latest in gym equipment.

Intercontinental Hotels Group ('IHG') is the largest hotel branding company worldwide covering, amongst others, the Intercontinental, Crowne Plaza, Holiday Inn and Holiday Inn Express brands. IHG has the largest guest loyalty programme in the world – priority club with over 42 million members and the conclusion of a franchise agreement with IHG to operate The Rosebank as a Crowne Plaza sees the return to South Africa of this esteemed brand.

The hotel has fast established itself as a landmark destination in Johannesburg's northern suburbs and has a diverse offering that includes two restaurants, a themed cocktail bar, magnificent conference facilities, executive lounge, luxury spa, health and fitness centre and a luxury goods retailer to afford the traveller any convenience when staying at this hotel. The Rosebank node is presently undergoing a major transformation with the Gautrain Station development, the upgrade and expansion of the Firs and Zone Shopping Malls and a number of new office developments under construction.

As testimony to the hotels popularity this hotel has been selected by sponsors for the World Cup 2010 and is fully booked for the tournament period of 37 days. A number of staff training initiatives are planned to ensure that the World Cup 2010 guests have a truly memorable South African experience.

## Refurbished property review

continued



### PROTEA HOTEL – THE WINKLER

This landmark hotel in the Mpumalanga Lowveld has undergone a massive redevelopment to the value of R28 million, which has seen the total refurbishment of the hotel and the construction of the new Heron conference centre.

The hotel bedrooms now feature the latest in-room technology with LCD televisions, 20 TV channels, new air-conditioners, new bathrooms, luxurious beds, digital safes and the latest energy-saving technology. The public areas were completely overhauled and have full wireless connectivity with the new Xilobo bar now featuring one of the largest selections of wines by the glass in the Lowveld. The Wakuja restaurant now features a completely revised buffet offering, with interactive chef stations and this outlet offers some of the finest dishes contemporary cooking has to offer.

The conference centre, which was built to accommodate up to 250 delegates has proven enormously popular with the local incentive community and provides the latest in technology in terms of both audio visual and catering equipment.

In order to attract the leisure market and families to the hotel, a fully fledged 'kiddies club' has been established. Kitchen and back of house areas were also fully refurbished.



### RICHARDS BAY DEVELOPMENTS

#### BAYSHORE INN

A R24 million refurbishment has recently been completed which has seen a complete makeover of this property. From a drab face brick exterior, the architecture has been dramatically altered to take on a "Cape Cod" vernacular. The bedrooms have been completely refurbished in a modern, functional theme and the public areas were completely renovated and all administration areas rearranged to ensure better efficiencies. There is now wireless connectivity in all of the public areas along with internet stations and vending machines. The opportunity to reconfigure the meeting rooms allows the hotel to now offer the finest conferencing facilities in this market with few competitors being able to offer similar product.

The existing restaurant has reinvented itself as a contemporary "diner" and has seen a change in the style of cuisine offered which is proving extremely popular with the markets this hotel serves. A new bar area and recreation area was designed and constructed to maximise the leisure facilities around the swimming pool area. The kitchen and on-site laundry was upgraded to the latest in design technology and incorporates energy efficient systems to assist management in reducing costs.

This hotel received a generator which allows for uninterrupted service to the whole operation in the event of there being a power outage.



**PROTEA HOTEL – THE RICHARDS**

The hotel foyer and public areas have recently undergone a R14 million upgrade and renovation. The foyer and reception areas have been enlarged and now incorporate a lounge featuring wireless connectivity and internet stations.

The swimming pool was relocated to allow for a more functional design of the leisure facilities which are now attractively designed and integrated with the hotel.

The conference centre now has its own dedicated entrance allowing for separate access and this facility which is the largest conference facility in the area and remains the hotel’s unique selling point in this market.

The entrance and car park along with all signage was completely renovated to again enhance the appearance of this fine 4 star product in the Richards

Bay market. The staff facilities and kitchen areas were completely renovated to meet the prescribed health and safety standards.

The hotel also received its own generator to allow for uninterrupted power supply in the event of a power shortages.

**PROTEA HOTEL – RICHARDS BAY**

The last touches are being put to the bedrooms of this hotel which has undergone a transformation to the value of R9 million. Each bedroom now features completely new soft furnishings, digital safes, wireless connectivity, LCD televisions and 26 DSTV channels.

The restaurant and public areas have also been completely overhauled using the nautical theme from the area. The hotel also received a generator capable of maintaining the operation of the full hotel in the event of there being a shortage of power.





*The Bayshore Inn*



## INTRODUCTION

Environmental management issues are regarded as a key performance area for all hotel management and have been incorporated into the various hotel monthly performance reviews.

The Responsible Tourism guidelines developed prior to the World Summit on Sustainable Development and in accordance with the World Tourism Organisation's code of ethics are used as a benchmark.

### Environmental impact

In acknowledging the importance of environmental management programmes, the Fund recognises the following key areas of operations as having an impact:

- Energy consumption (electrical usage)
- Water consumption (irrigation, cleaning, laundry facilities and guest usage)
- Waste water (sewage, laundry and kitchen)
- Air quality and pollution (kitchen emissions, laundry and non-smoking areas)
- Recycling (waste disposal of paper, glass and cans both steel and aluminium)

### Energy consumption

Electricity at the properties is supplied by either Eskom or the local authorities. All the properties other than the Premiere King David in East London now have back-up generator supplies to ensure full operational capability during power outages.

Some of the actions implemented to date to reduce energy consumption are as follows:

- Hot water boilers are set to heat water at night, and in the off-peak periods. Having fully insulated systems ensures that hot water is available at all times. Centralised air-conditioning plant have

timers to switch off automatically at preset times. This reduces energy consumption by ensuring unoccupied public spaces are not air-conditioned unnecessarily. Energy saving devices, such as keycard activated switches have been installed in the new and refurbished properties. This allows shut down of all non-essential electrical items when the rooms are unoccupied.

- Administration offices are being retrofitted with motion sensors linked to lights and air-conditioning to further aid energy saving when areas are unoccupied.
- The use of energy-efficient globes.
- Geyser blankets have been installed on all units where a main boiler system is not in operation to reduce the consumption of energy and all hot water pipes have been insulated to retain heat.
- Regular maintenance of all electrical equipment to ensure the operating efficiencies are maintained.
- Staff training programmes and initiatives include measures on saving power such as switching off lights in storage areas and bedrooms.
- The Fund measures energy consumption on a 'per property per occupied room' basis to provide comparative reports and year-on-year benchmarking

### Water consumption

Most properties are supplied with water for domestic consumption by the local authorities, except where municipal supplies are not available, in which case treated borehole water is used. Irrigation is mainly by way of either borehole water or 'grey water' plants. As with energy consumption the Fund measures water consumption on a 'per property per occupied room' basis. This enables comparative reports and benchmarking.

The Fund is actively seeking alternatives to reduce the consumption of water at its properties and in particular where development projects present opportunities to implement these initiatives. Some of the measures currently being adopted are as follows:

- A comprehensive guest awareness programme is in place where guests are requested to assist in reducing water usage by re-using linen especially towels in the bathrooms.
- Toilets are being fitted with dual flush mechanisms allowing for reduced water consumption.
- Shower heads and taps are being fitted with aerators to give the impression of high flow rates albeit at a significantly lower rate of usage.
- Showers are systematically replacing baths in the new developments.
- The use of laundry equipment is carefully controlled by housekeepers to ensure optimal loads.
- Garden irrigation is timed to take place outside of the heat of the day to reduce evaporation.
- The use of 'water wise' indigenous material in all landscaping and plant replacement projects.

#### **Waste water**

'Grey water' treatment plants have been established where possible and the outflow from these plants is used for irrigation.

Other mitigating steps that are being considered to reduce the effect of harmful substances on the environment are as follows:

- Bio-degradable and environmentally friendly chemicals are used in all kitchen, cleaning and laundry operations.
- Guest supplies in the forms of soaps, shampoo, foam baths, conditioners and lotions are bio-degradable.
- All hotels have grease traps which are regularly maintained to ensure that kitchen and food greases are removed before entering the waste systems.

- Salt chlorinators are used where possible to maintain pool hygiene and minimise the use of chlorine-based products.

#### **Air quality and pollution**

In an effort to minimise air pollution and improve air quality the following initiatives are being implemented:

- Effective filtration of kitchen and laundry extraction with regular monitoring and maintenance of the extraction and filtration systems.
- Reducing the number of cleaning materials that are dispensed by aerosol.
- Compliance with smoking legislation at all properties and ensuring that public areas are smoke-free and that at least 40% of hotel room inventory are smoke-free rooms.
- The use of ozone friendly refrigerants in all cooling equipment.
- Regular cleaning and replacement of air conditioner filters

#### **Recycling**

The majority of waste is currently being separated, however, the limited number of suitable service providers in removing these products remains challenging. Paper recycling along with the collection of glass and aluminium tins presents the largest opportunity in this regard and includes:

- Sappi and Mondi paper recycling
- Collect-a-can
- Enviroglass
- Feedback food redistribution

## INTRODUCTION

Individual hotels within Hospitality's portfolio have focused on making contributions and supporting upliftment programmes in the immediate communities within which they operate. A number of these ongoing initiatives include feeding programmes, donations and improvements to schools and community centres. While targets and strategy are established by the Fund, these initiatives are driven by the individual hotels and are reported on quarterly to the BEE committee.

The Fund's focus has been on education and enterprise development.

### Hospitality Property Fund Bursary Scheme

In acknowledging the skills shortage in the South African tourism industry, especially the shortage of leadership and managerial skills in the hotel sector, Hospitality has, in association with The University of Johannesburg ('UJ'), School of Tourism and Hospitality ('STH'), established the Hospitality Property Fund Bursary Scheme.

The bursary scheme aims to attract quality previously disadvantaged South African students to the field of hotel management. The memorandum of agreement was implemented on 1 August 2009 in order to enable Hospitality and UJ to award bursaries for the 2010 academic year for an initial commitment of three years ending 31 December 2012. Hospitality will provide an amount of R240 000 per annum (which translates to six individual bursaries per year) to UJ, which will administer the bursaries awarded through the Hospitality Property Fund Bursary Scheme.

### Enterprise development

Hospitality's focus is on strengthening existing relationships and assisting in developing those businesses which already provide a service to the Fund and whose development will not only benefit the business and surrounding communities, but also ultimately the Fund. An example of this was the donation of a vehicle and financing to a local entrepreneur to provide a contracted transport service to staff at the Mount Grace Country House & Spa.



*Mr Peter Tshabedi and Mount Grace Country House & Spa general manager, Mr Leon Meyer*

### Contributions directly by hotels

During the year, recipients of contributions included the following organisations:

- SA Red Cross Society
- Rhodes High School, Woodbridge Primary School, Hluhluwe Primary School
- Ikamva Labantu
- Reach for a Dream
- Dusk to Dawn
- Tomorrow Trust Project
- Thandanani Children Foundation
- EP Child and Youth Centre
- Operation Smile Madiba Bay
- IkhayaIthemba Orphanage
- Starfish Foundation
- SOS Childrens Village of South Africa
- Botshabelo community home based care organisation

# 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, integrity and fairness to the best interest of all its stakeholders.

## BOARD OF DIRECTORS

Hospitality's board consists of four executive directors and six non-executive directors, five of whom are independent. Directors' independence is categorised in terms of the requirement of King II and the JSE Limited Listings Requirements. The board's composition ensures a wide range of skills, knowledge and expertise to achieve its strategic objectives.

The position of the chief executive officer is separate from that of the chairman, who is an independent non-executive director.

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 leadership and direction to the Fund and monitors management's implementation of strategies and objectives.

In accordance with the Fund's Articles of Association, 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.

At year-end, the board reappointed its existing audit committee for the 2010 financial year.

The board has adopted a formal charter which sets out its objectives and commitments.

## 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 21 August 2008 Mr K H Abdul-Karrim was appointed as a member of the audit committee.
- (ii) On 21 August 2008 Dr Z N Kubukeli was appointed as a member of the investment and BEE committees.
- (iii) 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 JSE Limited Listings Requirements.
- (iv) On 3 February 2009 Mr Youseph Aminzadeh resigned as deputy chief executive officer, but remains an executive director of the board.
- (v) On 3 February 2009 Mr Andrew Rogers, previously the chief operating officer of the Fund was appointed as the deputy chief executive officer.

## 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.

An annual self-evaluation is conducted of the board as a whole and the performance and conduct of the chairman and their 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. Any issues or concerns raised are addressed and dealt with by the audit committee chairman.

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 advisors such as the company's sponsor.

Non-executive directors are remunerated at a fee per annum. Directors' fees are analysed and benchmarked against the industry and on recommendation by the audit committee, which also serves as the remuneration committee, approved by the board for tabling at the annual general meeting. Details of directors' remuneration are set out on page 58.

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



# Corporate governance

continued

## Attendance at board and sub-committee meetings

	Remuneration year ended 30 June 2009 (Rand)	Number of meetings held for the financial year ended 30 June 2009 (since date of appointment)	Number of meetings attended
<b>Board members</b>			
T E Sewell (Chairman)	148 500	6	6
K H Abdul-Karrim	118 800	6	6
Y Aminzadeh*	–	6	6
R Asmal*	–	6	6
Z N Kubukeli	118 800	6	6
B M Madumise	118 800	6	6
W J Midgley	118 800	6	6
G A Nelson*	–	6	6
A S Rogers*	–	6	6
W C Ross	118 800	6	6
<b>Audit committee members</b>			
W C Ross (Chairman)	37 500	4	4
K H Abdul-Karrim	30 000	3	3
T E Sewell	30 000	4	4
<b>BEE committee members</b>			
B M Madumise (Chairman)	15 000	4	4
Z N Kubukeli	12 000	4	4
G A Nelson*	–	4	4
<b>Investment committee members</b>			
K H Abdul-Karrim (Chairman)	6 875	2	2
Y Aminzadeh*	–	2	2
Z N Kubukeli	5 500	2	2
G A Nelson*	–	2	2
W C Ross	5 500	2	2

\* 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 ("the management company") out of the management fee which it receives from Hospitality.

### DELEGATION OF AUTHORITY

The formal delegation of authorities is set out in the terms of reference of each sub-committee. Authority limits for operations have also been approved by the board and the management company acts within these restrictions.

### CONFLICTS OF INTEREST

The board of Hospitality has adopted a formal policy on the managing of possible conflicts of interest. The policy is aimed at protecting both the Fund and the individuals involved from any appearance of impropriety and to ensure compliance to statutory

and best practice requirements. Directors declare their interests annually and in addition make declaration of any interest in any contract, which is significant in relation to the business of Hospitality prior to entering into such contract. Whenever it is felt that there is a conflict of interest the director will recuse him/herself from discussions at the board or sub-committee meeting when such business is tabled, unless otherwise directed by the board/committee. An interested director shall not be allowed to vote in respect of such business and if he/she does vote, the vote shall not be counted in respect of the resolution or the quorum present at the meeting.

### **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 64 to 70 of the annual report.

### **EXTERNAL AUDIT**

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

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

### **SUB-COMMITTEES**

The board has established a number of committees to give detailed attention to certain of its duties and to

assist in the execution of its powers and authorities. Minutes are taken of all sub-committee meetings and are noted at the following board meeting. The chairman of each of these committees reports to the board on its activities and makes recommendations to the board. Each committee operates within defined, written terms of reference.

#### **Audit committee**

The audit committee meets at least quarterly and also undertakes the roles of remuneration and risk committees. The committee met on four occasions during the 2009 financial year.

The committee comprises three independent non-executive directors. The chief executive officer, financial director, a representative from the management company and the audit partner of the external audit firm attends 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 auditors are acting independently and that their performance is satisfactory;
- 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 auditors 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 company, its executives and senior officials.

The audit committee has in accordance with the JSE Listings Requirements considered and found appropriate the expertise and experience of Mr R Asmal, the financial director of the Fund.

# Corporate governance

*continued*

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

## **BEE committee**

The committee comprises two independent non-executive directors and one executive director. The committee met on four occasions during the 2009 financial year.

The committee makes recommendations to the board on how to best achieve its social and transformation targets; it oversees general compliance with legal requirements in terms of transformation legislature instituted by government; and monitors ongoing BEE initiatives (see page 33 for details).

## **Investment committee**

The committee currently comprises three independent non-executive directors and two executive directors. Meetings are held when required to consider the viability of capital projects, strategic and operational plans, structuring of borrowings and acquisitions or disposals of properties.

Each transaction is considered individually in line with the Fund's strategy for acquisitions and disposals and proposals believed to be feasible are approved for ratification by the board.

## **Manco Internalisation Committee**

The board appointed a sub-committee comprising one executive director and three non-executive directors, two of whom are independent, to consider the feasibility of the potential acquisition and internalisation of the asset management of Hospitality; to take advice from Java Capital, the appointed adviser and transactional sponsor and other independent advisers; and to negotiate the transaction with the sellers. The non-executive members of the committee met with the corporate finance team of Java Capital on a number of occasions and working meetings were frequently held to discuss the proposed options and terms, feasibility, fairness and structure of the transaction.

The sub-committee met formally on a number of occasions between March and August 2009 and made a final recommendation to the board on 19 August 2009 to continue with the internalisation of the asset management of the fund on the terms set out in the announcement which appear on SENS and in the press on 19 August and 20 August 2009 respectively. Further details of this transaction can be found on page 15.

## **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 <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 78 to 82 of this report.

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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 2009, 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's 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 19 August 2009 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 2009, 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

19 August 2009

## 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 2009, 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 42 to 74.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 2009, 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 L J Wormald

Chartered Accountant (SA)

Registered Auditor

Director

19 August 2009

KPMG Crescent  
85 Empire Road  
Parktown  
Johannesburg

The directors have pleasure in submitting their report for the year ended 30 June 2009.

#### 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 23 properties valued at R3,4 billion.

#### REVIEW OF OPERATIONS

The results of the group and the company are set out in the attached financial statements and notes.

The current slowdown in the hospitality sector resulted in lower variable rentals being achieved during the year. The A-linked units distribution for the year amounted to 110,76 cents, up 5% on the previous year and in line with the distribution structure. The B-linked unit distribution was 152,65 cents or 8,1% lower than the previous year.

#### DIRECTORS' INTERESTS

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

##### A-linked units (number of units)

	2009				2008			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh*	–	125 584	–	125 584	–	133 235	–	133 235
Z N Kubukeli	–	207 764	–	207 764	–	207 764	–	207 764
B M Madumise	–	302 940	–	302 940	–	302 940	–	302 940
W J Midgley	–	26 962	–	26 962	–	26 962	–	26 962
G A Nelson*	–	1 807 730	–	1 807 730	–	1 793 003	–	1 793 003
T E Sewell	40 443	–	–	40 443	40 443	–	–	40 443
	40 443	2 470 980	–	2 511 423	40 443	2 463 904	–	2 504 347

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

	2009				2008			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh*	–	160 897	–	160 897	–	169 916	–	169 916
R Asmal	10 133	–	–	10 133	10 133	–	–	10 133
Z N Kubukeli	–	207 764	–	207 764	–	207 764	–	207 764
W J Midgley	–	53 924	–	53 924	–	53 924	–	53 924
G A Nelson*	–	1 469 006	–	1 469 006	–	1 449 175	–	1 449 175
T E Sewell	46 913	–	–	46 913	46 913	–	–	46 913
	57 046	1 891 591	–	1 948 637	57 046	1 880 779	–	1 937 825

\*The number of linked units in which an indirect beneficial interest is held, is reduced annually by the options exercised by participants in the Hospitality Property Fund Managers (Pty) Limited share incentive scheme. The number of options exercised/linked units taken up were as follows: In 2008: 41 678 A-linked units and 63 828 B-linked units; in 2009: 51 678 A-linked units and 63 695 B-linked units.

Note: No change in directors' interest occurred between year end and posting of this annual report.

The portfolio was revalued by independent property valuers at R3,4 billion, translating to a net asset value per linked unit of R17,93 (excluding deferred taxation) at year end.

#### 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.

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 34.

In terms of the company's articles of association Mr K H Abdul-Karrim, Mr G A Nelson and Ms B M Madumise retire by rotation and offer themselves for re-election.

### **DIRECTORS' REMUNERATION**

Remuneration of directors is disclosed in note 13.1 to the annual financial statements.

### **DISTRIBUTION TO UNITHOLDERS**

Distribution to unitholders is disclosed in note 17 to 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') (52%) and Hotel Tourism and Leisure Asset Management ('HTLAM') (48%). Hospitality Hotel Management Company (Pty) Limited ('Hotel Manco') which is owned by Grapnel (52%) and HTLAM (48%) is the hotel management company for Crowne Plaza Jhb – The Rosebank, Holiday Inn Sandton, Protea – The Winkler, Mount Grace Country House & Spa, Protea – The Richards, The Bayshore Inn, Protea Imperial, Protea Hluhluwe Hotel & Safaris and Protea Hazyview.

### **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.

### **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 were advised in a cautionary announcement published on the 19 August 2009 that Hospitality has reached an agreement with the shareholders of HPF Manco to acquire all of the issued shares of, and shareholders' claims against, HPF Manco with effect from the date that the transaction is implemented. The conclusion of this transaction, which is subject to shareholder approval, will see the management company being internalised and aligning the interest of key management with the interest of Hospitality linked unitholders. This transaction will also be yield enhancing to linked unitholders. A circular containing further details on the transaction will be sent to linked unitholders shortly.

### **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.

### **COMPANY SECRETARY**

The company secretary is Hospitality Property Fund Managers (Pty) Limited, ('HPF Manco'). The appointed representative of HPF Manco is Mrs L R van Onselen.

Business address: 3 on Glenhove, Corner Glenhove Road and Tottenham Avenue, Melrose Estate  
Postal address: P O Box 522195, Saxonwold, 2132.

## Balance sheets *as at 30 June 2009*

	Notes	GROUP		COMPANY	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>3 404 252</b>	2 300 495	<b>1 476 967</b>	1 490 738
Investment properties	2	3 389 043	2 249 704	–	–
Straight-line rent income accrual	3	15 209	9 976	–	–
Derivative asset	24.1	–	40 815	–	–
Investment in subsidiary	4			1 476 967	1 490 738
<b>Current assets</b>		<b>12 619</b>	207 128	<b>591</b>	80
Trade and other receivables	5	2 791	17 522	168	80
Cash and cash equivalents	6	9 828	189 606	423	–
<b>Total assets</b>		<b>3 416 871</b>	2 507 623	<b>1 477 558</b>	1 490 818
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>		<b>809 265</b>	770 990	<b>246 963</b>	247 148
Share capital and share premium	7	246 963	247 148	246 963	247 148
Retained earnings		980	980	–	–
Fair value reserve	8	561 322	522 862	–	–
<b>Non-current liabilities</b>		<b>2 483 644</b>	1 624 462	<b>1 157 912</b>	1 157 912
Debentures	9	1 157 912	1 157 912	1 157 912	1 157 912
Interest-bearing liabilities	10	1 013 564	279 726	–	–
Derivative liability	24.1	70 456	–	–	–
Deferred taxation	11	241 712	186 824	–	–
<b>Current liabilities</b>		<b>123 962</b>	112 171	<b>72 683</b>	85 758
Trade and other payables	12	52 115	26 935	836	522
Debenture interest payable		71 847	85 236	71 847	85 236
<b>Total equity and liabilities</b>		<b>3 416 871</b>	2 507 623	<b>1 477 558</b>	1 490 818
<b>A. NET ASSET VALUE PER LINKED UNIT (RAND)</b>					
A-linked unit		15,97	15,66	11,40	11,41
B-linked unit		15,97	15,66	11,40	11,41
<b>B. NET ASSET VALUE PER LINKED UNIT (EXCLUDING DEFERRED TAXATION) (RAND)</b>					
A-linked unit		17,93	17,18	11,40	11,41
B-linked unit		17,93	17,18	11,40	11,41

A. Net asset value per linked unit defined as:  $(\text{Total assets} - \text{Total liabilities} + \text{Debentures}) / (\text{Linked units in issue at end of year})$ .

B. Net asset value per linked unit defined as:  $(\text{Total assets} - \text{Total liabilities} + \text{Debentures} + \text{Deferred taxation}) / (\text{Linked units in issue at end of year})$ .

## Income statements *for the year ended 30 June 2009*

	Notes	GROUP		COMPANY	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>Revenue</b>		<b>261 919</b>	200 594	–	–
Rental income – contractual		256 686	196 230	–	–
– straight-line accrual		5 233	4 364	–	–
<b>Expenditure</b>		<b>(31 276)</b>	(26 851)	<b>(3 936)</b>	(3 312)
Property and other operating expenses		(31 276)	(26 851)	(3 936)	(3 312)
<b>Operating profit/(loss)</b>	13	<b>230 643</b>	173 743	<b>(3 936)</b>	(3 312)
<b>Net finance (cost)/income</b>	14	<b>(63 172)</b>	(10 345)	<b>166 174</b>	162 346
Finance income		24 139	24 022	166 174	162 346
Finance costs		(87 311)	(34 367)	–	–
<b>Profit before debenture interest, fair value adjustments and taxation</b>		<b>167 471</b>	163 398	<b>162 238</b>	159 034
Recoupment of debenture interest	15	–	8 278	–	8 278
Debenture interest		(162 238)	(167 312)	(162 238)	(167 312)
<b>Profit before fair value adjustments and taxation</b>		<b>5 233</b>	4 364	–	–
<b>Fair value adjustments</b>		<b>88 116</b>	295 096	–	–
Revaluation of investment properties		204 619	269 149	–	–
Straight-line rental income accrual		(5 233)	(4 364)	–	–
Interest-rate swaps		(111 270)	30 311	–	–
<b>Profit before taxation</b>		<b>93 349</b>	299 460	–	–
<b>Taxation</b>	16	<b>(54 889)</b>	(71 017)	–	–
<b>Profit for the year</b>		<b>38 460</b>	228 443	–	–
<b>Distribution per linked unit (cents)</b>					
A units		110,76	105,49	110,76	105,49
B units		152,65	166,16	152,65	166,16
		<b>263,41</b>	271,65	<b>263,41</b>	271,65
<b>Earnings and diluted earnings per share (cents)</b>					
A units		31,22	201,67	–	–
B units		31,22	201,67	–	–
		<b>62,44</b>	403,34	–	–

## Statements of changes in equity *for the year ended 30 June 2009*

	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 2007	9	64 881	4 815	290 584	360 289
Issue of ordinary shares	3	192 737			192 740
Share issue expenses		(10 482)			(10 482)
Profit for the year			228 443		228 443
Transfer (from)/to fair value reserve – revaluation of investment properties (net of deferred tax)			(198 132)	198 132	–
Transfer (from)/to fair value reserve – straight-line rental income			(3 835)	3 835	–
Transfer (from)/to 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>
Share issue expenses		(185)			(185)
Profit for the year			38 460		38 460
Transfer (from)/to fair value reserve – revaluation of investment properties (net of deferred tax)			(149 730)	149 730	–
Transfer to/(from) fair value reserve – interest rate swaps			111 270	(111 270)	–
<b>Balance at 30 June 2009</b>	<b>12</b>	<b>246 951</b>	<b>980</b>	<b>561 322</b>	<b>809 265</b>
<b>COMPANY</b>					
Balance at 30 June 2007	9	64 881	–	–	64 890
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>
Share issue expenses		(185)			(185)
<b>Balance at 30 June 2009</b>	<b>12</b>	<b>246 951</b>	<b>–</b>	<b>–</b>	<b>246 963</b>

## Cash flow statements *for the year ended 30 June 2009*

	Notes	GROUP		COMPANY	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>Cash flows from operating activities</b>					
Cash generated from/(utilised in) operations	18	265 321	133 969	(3 710)	486
Finance income received	14	24 139	24 022	166 174	162 346
Finance costs paid	14	(87 311)	(34 367)	–	–
Distribution to unitholders	19	(175 627)	(129 770)	(175 627)	(129 770)
Net cash inflow/(outflow) from operating activities		26 522	(6 146)	(13 163)	33 062
<b>Cash flows from investing activities</b>					
Acquisition and development of investment properties	20	(939 953)	(322 172)	–	–
Loan repaid by/(advanced to) subsidiary		–	–	13 771	(514 303)
Net cash (outflow)/inflow from investing activities		(939 953)	(322 172)	13 771	(514 303)
<b>Cash flows from financing activities</b>					
Proceeds from the issue of linked units		–	491 723	–	481 241
Share issue expenses paid		(185)	(10 482)	(185)	–
Interest-bearing liabilities raised		733 838	29 156	–	–
Net cash inflow/(outflow) from financing activities		733 653	510 397	(185)	481 241
Net (decrease)/increase in cash and cash equivalents		(179 778)	182 079	423	–
Cash and cash equivalents at beginning of year		189 606	7 527	–	–
<b>Cash and cash equivalents at end of year</b>		<b>9 828</b>	<b>189 606</b>	<b>423</b>	<b>–</b>

## **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 2009 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 19 August 2009.

### **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 they are 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.

## 1. ACCOUNTING POLICIES *continued*

### 1.4 Investment properties *continued*

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 after tax on the sale of investment properties is transferred to a capital reserve. The balance relating to the sold properties, which were previously included in the fair value reserve, is also transferred to the capital reserve.

### 1.5 Financial instruments

Financial instruments are initially measured at fair value, 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. A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument.

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.

#### 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. ACCOUNTING POLICIES** *continued*

**1.5 Financial instruments** *continued*

**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. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**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. ACCOUNTING POLICIES *continued*

### 1.10 Revenue recognition *continued*

#### 1.10.2 Finance income

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

### 1.11 Expenses

#### 1.11.1 Letting costs

Letting costs, which include tenant installations, letting commissions and stamp duty, are recognised in profit or loss 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 use 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 method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the following temporary differences: 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

A segment is a distinguishable component of the group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and returns that are different from other segments. Segment information is presented in respect of the group's business and geographical segments. The group's primary format for segment reporting is based on business segments. The business segments are determined based on the group's management and internal reporting structure.

## 1. ACCOUNTING POLICIES *continued*

### 1.13 Segment reporting *continued*

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans, debentures, deferred tax, income tax assets or liabilities borrowings and related expenses.

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 and is expected to have a significant impact on the presentation of the financial statements.

## 1. ACCOUNTING POLICIES *continued*

### 1.14 Forthcoming requirements *continued*

#### **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.

#### **IFRS 7 amendment**

The amendments to IFRS 7 will be adopted for the first time for the financial reporting period ending 30 June 2010.

In terms of the amendments additional disclosure will be provided on the fair value measurement disclosures for financial instruments and the liquidity risk disclosures for financial liabilities.

The requirements of the amendments are as follows:

Amendments to IFRS 7 *Financial Instruments: Disclosures*

The following disclosures regarding financial instruments and the significance of financial instruments are required as a result of the amendment:

#### **Fair value measurement disclosures**

An entity should use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair value when presenting fair value measurement disclosures. The level in the fair value hierarchy should be disclosed for each class of financial instruments (measured at fair value). Additional disclosures for classes of financial instruments on a level 3 measurement, transfers between levels and changes to valuation techniques should be provided.

#### **Liquidity risk disclosures**

- Liquidity risk disclosures should only be provided for financial liabilities that will result in an outflow of cash or another financial asset.
- The maturity analysis should include the remaining contractual maturities for derivative financial liabilities that are essential for an understanding of the timing of the cash flows.
- Embedded derivatives should not be separated from a hybrid financial instrument in the maturity analysis. The hybrid financial instrument should be disclosed as a non-derivative financial liability.
- Additional disclosure is required for the summary quantitative data about exposure to liquidity risk when the cash flows may occur significantly earlier than indicated on the maturity analysis or at significantly different amounts.
- Effective date: The amendments are effective for annual periods beginning on or after 1 January 2009.

# Notes to the annual financial statements *for the year ended 30 June 2009*

continued

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>2. INVESTMENT PROPERTIES</b>				
Balance at beginning of year	2 249 704	1 662 747	–	–
Additions at cost – acquisitions	420 754	260 719	–	–
– capitalised expenditure	519 199	61 453	–	–
Fair value adjustment	204 619	269 149	–	–
Property at fair value	3 394 276	2 254 068	–	–
Less: Straight-line rental income accrual	(5 233)	(4 364)	–	–
Balance at end of year	3 389 043	2 249 704	–	–
<p>The investment property portfolio serves as collateral against loans from funding banks. Refer to note 10.</p> <p>Investment properties were independently valued at 30 June 2009. The valuation of the portfolio was split between the following registered valuers from JHI (Gensec Property Services Limited):</p> <p>Mr B van Vuuren, Professional Associate Valuer</p> <p>Mr B Nyagah, Professional Associate Valuer</p> <p>Mrs L van der Merwe, Professional Associate Valuer</p> <p>The valuations were undertaken using the discounted cash flow method ('DCF'). In previous years a combination of an income capitalisation ('IC') and DCF method was used. As the hotels are currently trading in a volatile market the IC method was considered to be a less appropriate method to apply to the current year. The fair values are based on the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after property marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.</p> <p>A summary of the valuations and the relevant assumptions is reflected on page 21 of the report.</p> <p>Finance costs incurred in the redevelopment of the properties were capitalised based on the funding costs incurred on the development loans from banks.</p> <p>Details of construction and redevelopments are contained on page 26.</p>				
<b>3. STRAIGHT-LINE RENT INCOME ACCRUAL</b>				
Balance at beginning of year	9 976	5 612	–	–
Straight-line rental accrued during year	5 233	4 364	–	–
Balance at end of year	15 209	9 976	–	–

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>4. INVESTMENT IN SUBSIDIARY</b>				
HPF Properties (Pty) Limited (100% direct holding)				
Shares at cost (R120)			–	–
Loan to subsidiary			1 476 967	1 490 738
			<b>1 476 967</b>	<b>1 490 738</b>
<p>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.</p> <p>An amount of R166,1 million (2008: R162,3 million) has been paid as interest to the holding company during this year.</p>				
<b>5. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	2 620	17 430	–	–
Prepayments	171	1	168	80
Loans and receivables	2 791	17 431	168	80
VAT refund due from SARS	–	91	–	–
Trade and other receivables	<b>2 791</b>	<b>17 522</b>	<b>168</b>	<b>80</b>
<b>6. CASH AND CASH EQUIVALENTS</b>				
Comprises bank balances of current and call accounts	9 828	189 606	423	–
<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 ordinary shares of R0,0001 each	6,2	6,2	6,2	6,2
B shares – 61 591 087 ordinary shares of R0,0001 each	6,2	6,2	6,2	6,2
	<b>12,4</b>	<b>12,4</b>	<b>12,4</b>	<b>12,4</b>
<p>Each share is linked to a debenture, which together form a linked unit.</p> <p>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.</p>				

# Notes to the annual financial statements *for the year ended 30 June 2009*

continued

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>7. SHARE CAPITAL AND SHARE PREMIUM</b> continued				
<b>Share premium</b>				
Balance at beginning of year	247 136	64 881	247 136	64 881
Premium on share issue	–	192 737	–	192 737
Share issue expenses	(185)	(10 482)	(185)	(10 482)
Balance at end of year	246 951	247 136	246 951	247 136
<b>Share capital and share premium</b>	<b>246 963</b>	<b>247 148</b>	<b>246 963</b>	<b>247 148</b>
<b>8. FAIR VALUE RESERVE</b>				
Revaluation of investment properties (net of deferred tax)	633 554	483 824	–	–
Revaluation of interest rate swap	(70 455)	40 815	–	–
Revaluation of straight-line rental	(1 777)	(1 777)	–	–
	<b>561 322</b>	<b>522 862</b>	<b>–</b>	<b>–</b>
<b>9. DEBENTURES</b>				
<b>Issued</b>	<b>1 157 912</b>	<b>1 157 912</b>	<b>1 157 912</b>	<b>1 157 912</b>
A shares – 61 591 087 debentures at R9,40 each	578 956	578 956	578 956	578 956
B shares – 61 591 087 debentures at R9,40 each	578 956	578 956	578 956	578 956
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 unitholders or their duly authorised agents at the registered office of the company.				
The rights of debenture holders to repayment are subordinated to the claims of the unsubordinated creditors.				
Subject to the subordination provisions, the debentures will be repayable if a final order of a competent court is made or an effective resolution is passed for the winding up of the company.				

		GROUP		COMPANY	
		2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>10. INTEREST-BEARING LIABILITIES</b>					
	<b>Interest rate</b>				
Absa Bank Limited – Main loan	JIBAR+1,3%	250 548	251 096	–	–
Absa Bank Limited – Development loan	Prime -2%	–	28 630	–	–
Absa Bank Limited – Floating loan	Prime -2%	44 016	–	–	–
Absa Bank Limited – Loan 1	JIBAR+1,3%	249 000	–	–	–
Absa Bank Limited – Loan 2	JIBAR+1,3%	170 000	–	–	–
Absa Bank Limited – Loan 3	JIBAR+1,3%	150 000	–	–	–
Absa Bank Limited – Loan 4	JIBAR+1,45%	50 000	–	–	–
Absa Bank Limited – Loan 5	Prime -1,6%	50 000	–	–	–
Absa Bank Limited – Loan 6	JIBAR+1,85%	50 000	–	–	–
		<b>1 013 564</b>	<b>279 726</b>	<b>–</b>	<b>–</b>
<p>The above loans are repayable on 10 February 2012 and are secured in terms of a first mortgage bond over investment properties with a market value of R3,4 billion and a cession of leases and rentals in respect of bonded properties.</p> <p>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.</p> <p>The proceeds from the increased borrowings over the year were utilised to fund the new acquisition and complete the development projects.</p>					
<b>11. DEFERRED TAXATION</b>					
Change in fair value of building component of investment properties		237 649	185 165	–	–
Change in fair value of land component of investment properties		4 063	1 659	–	–
		<b>241 712</b>	<b>186 824</b>	<b>–</b>	<b>–</b>
<p>Deferred taxation on the fair value adjustment of investment properties has been calculated at 14% on land value and 28% on buildings.</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 and therefore taxable income will not be available against which the deferred tax asset could be realised.</p>					
<b>12. TRADE AND OTHER PAYABLES</b>					
Retentions		–	2 960	–	–
Trade payables		40 529	18 396	836	522
Tenant deposits		9 435	5 579	–	–
VAT payable		2 151	–	–	–
		<b>52 115</b>	<b>26 935</b>	<b>836</b>	<b>522</b>

# Notes to the annual financial statements *for the year ended 30 June 2009*

continued

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>13. OPERATING PROFIT/(LOSS)</b>				
Operating profit/(loss) is stated after charging the following:				
Auditor's remuneration				
– Audit fee	588	390	77	62
Directors' emoluments (refer note 13.1)	885	599	885	599
Management fees payable to Hospitality Property Fund Managers (Pty) Limited	26 986	21 236	1 563	1 202

Property and other expenses were incurred to generate rental income.

## 13.1 Directors' emoluments

Fees for services as directors and members of sub-committees

	Group and company 30 June 2009			Group and company 30 June 2008		
	Directors' fees	Consulting fees	Total	Directors' fees	Consulting fees	Total
<b>Non-executive</b>						
T E Sewell (Chairman)	178	–	178	157	–	157
K H Abdul-Karrim	156	–	156	129	–	129
Z N Kubukeli	136	–	136	–	–	–
B M Madumise	134	–	134	119	–	119
W J Midgley	119	438	557	54	26	80
W C Ross	162	–	162	140	–	140
	885	438	1 323	599	26	625

**Executive** (remuneration packages were borne by Hospitality Property Fund Managers (Pty) Limited and related companies)

	Group and company 30 June 2009				Group and company 30 June 2008			
	Directors' fees	Salaries	Bonuses	Total	Directors' fees	Salaries	Bonuses	Total
Y Aminzadeh	–	570	–	570	–	750	–	750
R Asmal	–	978	558	1 536	–	750	386	1 136
G A Nelson	–	1 080	–	1 080	–	750	–	750
A S Rogers	–	1 512	907	2 419	–	1 260	441	1 701
	–	4 140	1 465	5 605	–	3 510	827	4 337

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>14. FINANCE INCOME</b>				
Tenants and positive bank balances	24 139	24 022	–	–
Subsidiary company	–	–	166 174	162 346
	<b>24 139</b>	<b>24 022</b>	<b>166 174</b>	<b>162 346</b>
<b>Finance costs</b>				
Interest-bearing liabilities	(87 311)	(34 367)	–	–
<b>15. RECOUPMENT OF DEBENTURE INTEREST</b>				
Recoupment of debenture interest – rights issue	–	8 278	–	8 278
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.				
<b>16. TAXATION</b>				
Deferred taxation expense	54 889	71 017	–	–
No provision has been made for current taxation as the group has no taxable income for the year.				
<b>Reconciliation of taxation rate</b>				
Current taxation rate	28,0%	28,0%	–	–
Prior year deferred tax adjustment due to change in tax rate	0,0%	(1,5%)	–	–
Interest rate swap	26,9%	(2,8%)	–	–
Effective taxation rate	54,9%	23,7%	–	–
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.				

# Notes to the annual financial statements *for the year ended 30 June 2009*

*continued*

## 17. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT

	GROUP		COMPANY	
	2009 Gross	2009 Net of tax	2008 Gross	2008 Net of tax
<b>Profit for the year</b>		<b>38 460</b>		228 443
Adjustments: Debenture interest	<b>162 238</b>	<b>162 238</b>	167 312	167 312
<b>Earnings (linked units)</b>		<b>200 698</b>		395 755
Adjustments:				
Fair value – investment properties revaluation (net of taxation)	<b>(204 619)</b>	<b>(149 730)</b>	(269 149)	(198 132)
Fair value – straight-line rental income	<b>5 233</b>	<b>5 233</b>	4 364	4 364
<b>Headline earnings (linked units)</b>		<b>56 201</b>		201 987
Fair value – interest rate swaps	<b>111 270</b>	<b>111 270</b>	(30 311)	(30 311)
Straight-line rental income	<b>(5 233)</b>	<b>(5 233)</b>	(4 364)	(4 364)
<b>Distributable earnings</b>		<b>162 238</b>		167 312

	2009			2008		
	A units	B units	Total	A units	B units	Total
Number of units	<b>61 591 087</b>	<b>61 591 087</b>		61 591 087	61 591 087	
Weighted average number of units	<b>61 591 087</b>	<b>61 591 087</b>		56 637 584	56 637 584	
<b>GROUP</b>						
Distribution per linked unit (cents)	<b>110,76</b>	<b>152,65</b>	<b>263,41</b>	105,49	166,16	271,65
Earnings per linked unit (cents)	<b>162,93</b>	<b>162,93</b>	<b>325,86</b>	349,38	349,38	698,76
Headline and diluted headline earnings per linked unit (cents)	<b>45,62</b>	<b>45,62</b>	<b>91,24</b>	178,32	178,32	356,64
Earnings per share (cents)	<b>31,22</b>	<b>31,22</b>	<b>62,44</b>	201,67	201,67	403,34

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>NOTES TO THE CASH FLOW STATEMENTS</b>				
<b>18. CASH GENERATED FROM OPERATIONS</b>				
Profit before taxation	93 349	299 460	–	–
Adjusted for:				
Net finance costs	63 172	10 345	(166 174)	(162 346)
Net debenture interest	162 238	159 034	162 238	159 034
Straight-lining accrual of rental income	(5 233)	(4 364)	–	–
Fair-value adjustments	(88 116)	(295 096)	–	–
Cash generated/(utilised) before working capital changes	225 410	169 379	(3 936)	(3 312)
Changes in working capital	39 911	(35 410)	226	3 798
Decrease/(increase) in trade and other receivables	14 731	(4 079)	(88)	3 276
Increase/(decrease) in trade and other payables	25 180	(31 331)	314	522
	265 321	133 969	(3 710)	486
<b>19. DISTRIBUTION TO UNITHOLDERS</b>				
Balance at beginning of year	85 236	55 972	85 236	55 972
Amount per income statement	162 238	159 034	162 238	159 034
Balance at end of year	(71 847)	(85 236)	(71 847)	(85 236)
	175 627	129 770	175 627	129 770
<b>20. ACQUISITION OF INVESTMENT PROPERTIES</b>				
Balance at beginning of year	2 259 680	1 668 359	–	–
Fair-value adjustments	204 619	269 149	–	–
Balance at end of year	(3 404 252)	(2 259 680)	–	–
Acquisition at cost	(939 953)	(322 172)	–	–

# Notes to the annual financial statements for the year ended 30 June 2009

continued

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>21. CAPITAL COMMITMENTS</b>				
Authorised and committed	17 904	863 000	–	–
The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.				
<b>22. MINIMUM LEASE RENTALS RECEIVABLE</b>				
At 30 June the group had contracts with tenants for the following minimum lease rentals for periods between 3 to 11 years. The rentals below relate only to fixed rentals and do not include any variable rentals or escalations based on CPI.				
Less than one year	209 415	148 231	–	–
Between one and five years	728 856	517 165	–	–
After five years	383 173	291 974	–	–
	1 321 444	957 370	–	–
<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') (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited ('HTLAM') (48%)</i>				
Brokerage fee paid by group (2% on cost of acquisition)	8 166	5 888	–	–
Development fee paid by group (2% on cost of development)**	4 198	–	–	–
Management fee paid by group (1% of enterprise value)	26 986	21 236	1 563	1 202
Trade and other payables	2 031	624	38	28
Relationship – Fund manager and directorial				
** The development fee charged specifically excludes Crowne Plaza Jhb – The Rosebank development included in Hospitality Hotel Developments (Pty) Limited.				

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
<b>23. RELATED-PARTY TRANSACTIONS</b> continued				
<b>Majormatic 194 (Pty) Limited ('C-Corp') – Hotel operating company*</b>				
<i>(Shareholders: Grapnel (52%) and HTLAM (48%))</i>				
Rental received by group	112 069	79 182	–	–
Trade and other payables/(receivable)	2 222	(8 930)	–	–
Relationship – shareholding of Manco and directorial				
<b>Hospitality Hotel Management Company (Pty) Limited – Hotel management company*</b>				
<i>(Shareholders: Grapnel (52%) and HTLAM (48%))</i>				
Management fee paid by hotels	11 077	10 989	–	–
Reimbursement of sales team costs	357	1 874	–	–
Trade and other payables	1 331	707	–	–
<b>Hospitality Hotel Developments (Pty) Limited – Hotel development company*</b>				
<i>(Shareholders: Grapnel (52%) and HTLAM (48%))</i>				
Refurbishment of Crowne Plaza Jhb – The Rosebank	306 410	–	–	–
Development profit from the above (2% of above refurbishment cost)	6 128	–	–	–
Trade and other payables	4 568	–	–	–
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.

## 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 by Manco 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 is 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:

	All in fixed rate	Commence- ment date	Maturity	Fair value at 30 June 2009 R'000	Fair value at 30 June 2008 R'000
R253 million*	10,45%	Apr 2008	May 2012	(10 183)	24 009
R150 million	11,45%	Aug 2008	Aug 2013	(9 185)	8 753
R150 million**	11,15%	Dec 2008	Dec 2011	(9 478)	8 053
R249 million***	11,97%	Sep 2008	Sep 2015	(28 330)	–
R170 million	11,33%	Sep 2008	Sep 2018	(13 280)	–
R972 million				(70 456)	40 815

Negative value denotes that swap is in the bank's favour.

\* extendable at the election of Absa to May 2014.

\*\* extendable at the election of Absa to December 2013.

\*\*\* step up swap structure – weighted average rate.

HPF has also contracted into two options to enter into interest rate swap transactions. These two options are exercisable at the election of ABSA Capital on 1 December 2011 and 10 May 2012 respectively, and have fair values of R3,028 million (liability) and R3,517 million (liability) respectively at 30 June 2009.

#### 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 R17,6 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 R17,6 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 50 basis points, this change would affect interest paid by R0,2 million (2008: 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 2009</b>					
Cash and cash equivalents					
– Cash on call	6,90	7 383	7 383		
– Current account	0,75	2 445	2 445		
Trade and other payables					
– Tenant deposit	6,90	(9 435)	(9 435)		
Financial liabilities					
– Absa Bank Limited – Main loan	9,31	(250 548)		(250 548)	
– Absa Bank Limited – Floating	9,00	(44 016)		(44 016)	
– Absa Bank Limited – Loan 1	8,48	(249 000)		(249 000)	
– Absa Bank Limited – Loan 2	8,48	(170 000)		(170 000)	
– Absa Bank Limited – Loan 3	9,30	(150 000)		(150 000)	
– Absa Bank Limited – Loan 4	9,16	(50 000)		(50 000)	
– Absa Bank Limited – Loan 5	9,40	(50 000)		(50 000)	
– Absa Bank Limited – Loan 6	8,63	(50 000)		(50 000)	
Debentures	Variable	(1 157 912)			(1 157 912)
		(2 171 083)	393	(1 013 564)	(1 157 912)
<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	0,135	(28 630)	(28 630)	–	–
Debentures	Variable	(1 157 912)	–	–	(1 157 912)
		(1 253 612)	155 396	(251 096)	(1 157 912)

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 2009</b>				
Interest-bearing liabilities	1 013 564	–	1 013 564	–
Trade and other payables	52 115	52 115	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	71 847	71 847	–	–
	<b>2 295 438</b>	<b>123 962</b>	<b>1 013 564</b>	<b>1 157 912</b>
<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>Company 30 June 2009</b>				
Trade and other payables	836	836	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	71 847	71 847	–	–
	<b>1 230 595</b>	<b>72 683</b>	<b>–</b>	<b>1 157 912</b>
<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>

## 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:

	30 June 2009 R'000	30 June 2008 R'000
Property valuation	3 404 252	2 259 680
65% thereof	2 212 764	1 468 792
Effective borrowings	1 013 564	279 726
Unutilised borrowing capacity	1 199 200	1 189 066
Facilities available in terms of agreements at 30 June	1 243 000	827 400
Gearing ratio	29,8%	12,4%

### 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:

	GROUP		COMPANY	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Trade and other receivables				
– Tenant and related receivables	2 620	17 430	–	–
– Other receivables	171	92		80
	2 791	17 522	–	80
Tenant deposits	(9 435)	(5 579)	–	–
Bank guarantees	(700)	(36 597)	–	–

The group holds collateral over certain trade and other 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.

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:

	Gross carrying value		Impairment	
	GROUP		GROUP	
	2009 R'000	2008 R'000	2009 R'000	2008 R'000
Current (< 30 days)	2 620	17 430	–	(504)
Total	2 620	17 430	–	(504)

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

	GROUP	
	2009 R'000	2008 R'000
Balance at the beginning of the year	504	–
Impairment loss recognised	(504)	504
Balance at the end of the year	–	504

The group comprehensively assesses the individual circumstances and credit risk of the tenant and impairment losses are recognised after the group assessment indicates that recoverability is unlikely.

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%.

During 2009, the underlying debt to assets ratio increased from 12,4% to 29,8% at 30 June 2009.

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 is 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.

## 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:

	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 2009</b>								
Cash and cash equivalents	-	-	9 828	-	-	-	9 828	9 828
Trade and other receivables	-	-	2 620	-	-	171	2 791	2 620
	-	-	12 448	-	-	171	12 619	
Trade and other payables	-	-	-	-	40 529	-	40 529	40 529
Tenant deposits	-	-	-	-	9 435	-	9 435	9 435
Derivative financial liability	70 455	-	-	-	-	-	70 455	70 455
Interest-bearing borrowings	-	-	-	-	1 013 564	-	1 013 564	1 013 564
Debentures	-	-	-	-	1 157 912	-	1 157 912	
Debenture interest payable	-	-	-	-	71 847	-	71 847	71 847
	70 455	-	-	-	2 293 287	-	2 363 742	
<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	

# Notes to the annual financial statements *for the year ended 30 June 2009*

*continued*

## 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 2009</b>								
Loan to subsidiary	-	-	1 476 967	-	-	-	1 476 967	1 476 967
Trade and other receivables	-	-	-	-	-	168	168	
	-	-	1 476 967	-	-	168	1 477 135	
Trade and other payables	-	-	-	-	836	-	836	836
Debentures	-	-	-	-	1 157 912	-	1 157 912	
Debenture interest payable	-	-	-	-	71 847	-	71 847	71 847
	-	-	-	-	1 230 595	-	1 230 595	
<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	

## Segmental information *for the year ended 30 June 2009*

### 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) Limited 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 2009</b>					
Segment revenue	129 528	112 684	14 474	5 233	261 919
Expenditure				(31 276)	(31 276)
Segment operating results	129 528	112 684	14 474	(26 043)	230 643
Net finance cost				(225 410)	(225 410)
Profit/(loss) before fair value adjustments and taxation	129 528	112 684	14 474	(251 453)	5 233
Fair-value adjustments	141 465	47 550	10 371	(111 270)	88 116
Segment result	270 993	160 234	24 845	(362 723)	93 349
<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
Segment result	263 768	182 502	23 473	(170 283)	299 460

## Segmental information for the year ended 30 June 2009

continued

R'000	Fixed lease agreements	C-Corp lease agreements	Variable lease agreements	Corporate	Total
<b>Balance sheet – 30 June 2009</b>					
<b>Non-current assets</b>					
Investment properties	1 411 000	1 868 780	124 472	–	3 404 252
<b>Current assets</b>					
Trade and other receivables	538	179	1 764	310	2 791
Cash and cash equivalents				9 828	9 828
<b>Segment assets</b>	<b>1 411 538</b>	<b>1 868 959</b>	<b>126 236</b>	<b>10 138</b>	<b>3 416 871</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Debentures				1 157 912	1 157 912
Interest-bearing liabilities				1 013 564	1 013 564
Derivative liability				70 455	70 455
<b>Current liabilities</b>					
Trade and other payables	9 500	2 221	–	40 394	52 115
Debenture interest payable				71 847	71 847
<b>Segment liabilities</b>	<b>9 500</b>	<b>2 221</b>	<b>–</b>	<b>2 354 172</b>	<b>2 365 893</b>
<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
<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>1 527 116</b>	<b>1 549 809</b>

## GROUP SEGMENTAL ANALYSIS

### Secondary segment

R'000	Gauteng	Western Cape	KwaZulu- Natal	Eastern Cape	Mpu- malanga	Corporate	Total
<b>Income statement – 30 June 2009</b>							
Segment revenue	155 856	38 014	39 061	18 468	5 287	5 233	261 919
Expenditure						(31 276)	(31 276)
Segment operating results	155 856	38 014	39 061	18 468	5 287	(26 043)	230 643
Net finance cost						(225 410)	(225 410)
Profit before fair value adjustments and taxation	155 856	38 014	39 061	18 468	5 287	(251 453)	5 233
Fair-value adjustments	156 409	27 202	6 992	11 997	2 019	(116 503)	88 116
Profit before taxation	312 265	65 216	46 053	30 465	7 306	(367 956)	93 349
Taxation						(54 889)	(54 889)
Segment result	312 265	65 216	46 053	30 465	7 306	(422 845)	38 460
<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 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 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

## Segmental information for the year ended 30 June 2009

continued

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	Corporate	Total
<b>Balance sheet – 30 June 2009</b>							
<b>Non-current assets</b>							
Investment properties	2 168 072	486 400	499 780	153 000	97 000	–	3 404 252
<b>Current assets</b>							
Trade and other receivables	2 230	216	–	35	–	310	2 791
Cash and cash equivalents						9 828	9 828
<b>Segment assets</b>	<b>2 170 302</b>	<b>486 616</b>	<b>499 780</b>	<b>153 035</b>	<b>97 000</b>	<b>10 138</b>	<b>3 416 871</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Debentures						1 157 912	1 157 912
Interest-bearing liabilities						1 013 564	1 013 564
Derivative liability						70 455	70 455
<b>Current liabilities</b>							
Trade and other payables	64	2 182	–	559	–	49 310	52 115
Debenture interest payable						71 847	71 847
<b>Segment liabilities</b>	<b>64</b>	<b>2 182</b>	<b>–</b>	<b>559</b>	<b>–</b>	<b>2 363 088</b>	<b>2 365 893</b>
<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
<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>1 529 149</b>	<b>1 549 809</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).

## Shareholder analysis

	A-linked units				B-linked units			
	Number of unit-holdings	%	Number of units	%	Number of unit-holdings	%	Number of units	%
<b>Shareholder spread</b>								
1 – 1 000	167	25,34	77 615	0,13	191	12,60	106 859	0,17
1 001 – 10 000	322	48,86	1 157 052	1,88	1 005	66,29	4 160 413	6,76
10 001 – 100 000	95	14,42	3 410 392	5,54	260	17,15	6 500 187	10,55
100 001 – 1 000 000	62	9,41	20 445 793	33,19	48	3,17	18 735 590	30,42
1 000 001 units and over	13	1,97	36 500 235	59,26	12	0,79	32 088 038	52,10
<b>Total</b>	<b>659</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 516</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>
<b>Distribution of unitholders</b>								
Banks	2	0,30	7 449	0,01	3	0,20	309 919	0,50
Close corporations	8	1,22	33 657	0,05	18	1,19	148 693	0,24
Empowerment	3	0,46	17 036 177	27,66	2	0,13	10 774 595	17,49
Endowment funds	27	4,10	867 963	1,41	35	2,31	1 649 868	2,68
Individuals	351	53,26	1 146 492	1,86	1 045	68,93	5 777 704	9,38
Insurance companies	11	1,67	4 924 980	8,00	18	1,19	8 958 042	14,55
Investment companies	6	0,91	166 655	0,27	9	0,59	1 075 182	1,75
Manco holdings	1	0,15	183 357	0,30	1	0,07	197 258	0,32
Medical schemes	7	1,06	751 345	1,22	4	0,26	87 793	0,14
Mutual funds	45	6,83	25 702 885	41,73	49	3,23	13 501 801	21,92
Nominees and trusts	120	18,21	1 667 014	2,71	211	13,92	3 572 096	5,80
Other corporations	5	0,76	7 521	0,01	18	1,19	179 085	0,29
Private companies	30	4,55	424 973	0,69	51	3,36	4 077 827	6,62
Public companies	2	0,30	3 547	0,01	2	0,13	5 462	0,01
Retirement funds	41	6,22	8 667 072	14,07	50	3,30	11 275 762	18,31
	<b>659</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 516</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>	7	1,06	10 638 553	17,27	8	0,53	10 380 592	16,85
Directors and associates of company holdings	5	0,76	993 862	1,61	6	0,39	734 017	1,19
Strategic Holdings (more than 10%)	1	0,15	9 513 012	15,45	1	0,07	9 513 012	15,44
Manco holdings	1	0,15	131 679	0,21	1	0,07	133 563	0,22
<b>Public unitholders</b>	<b>652</b>	<b>98,94</b>	<b>50 952 534</b>	<b>82,73</b>	<b>1 508</b>	<b>99,47</b>	<b>51 210 495</b>	<b>83,15</b>
	<b>659</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>	<b>1 516</b>	<b>100,00</b>	<b>61 591 087</b>	<b>100,00</b>
<b>Beneficial unitholders holding 5% or more</b>								
Nobuntu Investments II (Pty) Limited			9 513 012	15,45				
Coronation Fund Managers			7 612 274	12,36				
STANLIB			5 826 722	9,46				
Nobuntu Investments (Pty) Limited			5 000 000	8,12				
Old Mutual			3 414 193	5,54				
Rand Mutual Assurance Company			3 223 652	5,23				
<b>Total</b>			<b>34 589 853</b>	<b>56,16</b>				
<b>Beneficial unitholders holding 3% or more</b>								
Nobuntu Investments II (Pty) Limited							9 513 012	15,44
Old Mutual							8 370 096	13,59
Investec							5 738 261	9,32
Transnet Pension Fund							3 810 879	6,19
Metope Investments Holdings (Pty) Limited							3 494 760	5,67
Metropolitan							3 374 266	5,48
<b>Total</b>							<b>34 301 274</b>	<b>55,69</b>

## Shareholders' diary

<b>Event</b>	<b>Date</b>
Financial year-end	30 June
Annual general meeting	30 October 2009
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. 7 for the year ended 30 June 2009</i>	
Declaration date	19 August 2009
Last date to trade cum interest	4 September 2009
Linked units will trade ex interest	7 September 2009
Record date	11 September 2009
Payment date of interest distribution	14 September 2009

### *Distribution No. 8 for the 6 months ending 31 December 2009*

*(Expected dates)*

Declaration date	17 February 2010
Last date to trade cum interest	5 March 2010
Linked units will trade ex interest	8 March 2010
Record date	12 March 2010
Payment date of interest distribution	15 March 2010

# 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 fifth annual general meeting of shareholders of Hospitality Property Fund Limited will be held at Crowne Plaza Johannesburg – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank on Friday, 30 October 2009 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 2009 together with the reports of the directors and auditors 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:

#### **K H Abdul-Karrim**

BCompt (University of the Witwatersrand)

PDM-PPA (University of the Witwatersrand)

MBA (Bond University)

Mr Abdul-Karrim initially trained as an accountant and spent the earlier part of his career in accounting and finance, fulfilling the role of chief financial officer for two global companies in the service environment. He then embarked on postgraduate studies completing the PDM-Public Policy Department and Administration at the University of the Witwatersrand in 1996 and went on to obtain an MBA from Bond University in Australia during 1998. Mr Abdul-Karrim is an ex director of Strategic Marketing at Southern Sun and is currently working as an independent consultant focusing on the hotel industry.

Mr Abdul-Karrim holds the position of managing director at Pam Golding Tourism & Hospitality Consulting (Pty) Limited and was also recently appointed a Non-executive director of Quantum Property Group Limited.

#### **B M Madumise**

BProc (University of the Witwatersrand)

LLB (University of the Witwatersrand)

MBA (Bond University)

Graduate Diploma in International Trade Law (University of the Witwatersrand)

Ms Madumise is an admitted Advocate of the High Court of South Africa. She has had a varied professional life, and serves on various boards, amongst others Randgold and Exploration Company Limited and South African Nuclear Corporation ('NECSA'). Ms Madumise is the Non-executive Chairman of the National Arts Council and Bayport Financial Services. She is currently also the Executive Chairman of Khomelela Investments (Pty) Limited, a black women owned and managed investment company.

#### **G A Nelson**

BSc Building (University of the Witwatersrand)

Mr Nelson has extensive experience in property related activities with specific expertise in development, asset management and investment relating to both listed and directly held property vehicles.

Mr Nelson obtained a BSc (Building) degree from the University of the Witwatersrand in 1977. He commenced his career in the construction industry, later moving into project management as a partner in a firm of specialist project managers. Following this, he spent five years with Old Mutual Properties as development manager, joining UAL Merchant Bank in 1995, where he was responsible for property development on behalf of the bank, Sycom and Newport Property Fund. Mr Nelson is currently a non-executive director and a past Managing Director of Sycom Property Fund Managers Limited, the management company of Sycom. Mr Nelson is also a past chairman of the Association of Property Unit Trust Management Companies.

3. To authorise the directors and specifically the audit committee to determine the remuneration of the auditors for the year ended 30 June 2009.
4. To approve the non-executive directors' fees payable for the period 1 July 2009 to 30 June 2010. It is proposed that the following fees be paid:

	Chairman Rand	Member Rand
Director (per annum)	160 380	128 304
Audit committee (per annum)	40 500	32 400
BEE committee (per annum)	16 200	12 960
Investment committee (per meeting)	7 425	5 940
Manco internalisation committee (per meeting)	7 425	5 940

The above fees represented an 8% increase to prior year.

5. To approve the reappointment of KPMG Inc. as auditor of the company, and Ms L J Wormald as the individual designated auditor until the next annual general meeting. The audit committee is of the opinion that KPMG Inc. is independent of the company and nominates their reappointment.
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 to approve the repurchase by the company or its subsidiary, of its "A" and "B" shares, upon such terms and conditions and in such amounts that the directors of the company may from time to time determine, 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'), and on the following basis:

- 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 counterparty (reported trades are prohibited);
- b) the number of "A" and "B" shares respectively which may be acquired pursuant to this authority in any financial year may not in the aggregate exceed 20% of the company's share capital of the relevant class from the date of the grant of this general authority;
- c) repurchases may not be made at a price greater than 10% above the weighted average of the respective market values of the "A" and the "B"-linked units for the five business days immediately preceding the date on which the repurchase is effected; [5.72(d)]
- 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 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;

# Notice of annual general meeting of shareholders

continued

- e) the company shall release an announcement on SENS and in the press, 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 repurchased thereafter;
- f) this general authority shall be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- g) at any point in time, the company may only appoint one agent to effect any repurchases on the company's behalf;
- h) after such repurchases, the company will still comply with the JSE Listings Requirements concerning shareholder spread requirements; and

The directors of the company undertake that they will not effect a general repurchase of shares as contemplated above unless the following conditions are met:

- 1) the company and the group are 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;
- 2) the consolidated assets of the company and the group, being fairly valued in accordance with International Financial Reporting Standards, are in excess of the consolidated liabilities of the company and the group for a period of 12 months after the date of the general repurchase;
- 3) the share capital and reserves of the company and the group is adequate for a period of 12 months following the date of the general repurchase;
- 4) the available working capital of the company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of the general repurchase; and
- 5) upon entering the market to proceed with the repurchase, the sponsor has confirmed the adequacy of the company's working capital for purposes of undertaking a repurchase of shares in writing to the JSE."

#### **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.

#### **Statement of board's intention:**

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 are opportunities that may require immediate action.

#### **Other disclosures in accordance with section 11.26 of the JSE Listings Requirements**

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

- Directors – page 24
- Major beneficial linked unit holders – page 76
- Directors' interests in linked units – page 42
- Share and debenture capital of the company – page 56

#### **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 affairs or the financial position of the company or that of its subsidiaries since the date of signature of the audited annual financial statements and the date of this notice.

#### **Directors' responsibility statement**

The directors, whose names appear on page 24 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**

In terms of section 11.26 of the JSE Listings Requirements, the directors whose names appear on page 24 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 company'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 but unissued share capital of the company be and are hereby placed under the control of the directors of the company to allot, issue and otherwise dispose of such shares subject to the Companies Act, the company's memorandum and Articles of Association and the JSE Listings Requirements, 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 5% of the number of "A" shares and "B" shares in the company's issued share capital as at the date of the passing of this resolution (the determination of which, shall exclude any specific issue of shares approved by shareholders) 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."

### **6.3 Ordinary resolution number 2: Specific authority number 1 for the control of authorised but unissued shares**

Hospitality intends to undertake a capital raising during the first quarter of 2010 by way of a rights offer to fund various acquisitions currently under negotiation ('the rights offer') and which are expected to be concluded over the course of the next 18 months. A specific authority placing the authorised but unissued shares in the capital of the company under the control of the directors is required in order to implement the proposed rights offer. The proposed value of the rights offer will be a maximum of R600 million.

Although the market will be continually monitored leading up to the intended rights offer, funds are to be raised primarily through a rights offer rather than other forms of capital raising or increased debt facilities for the following reasons:

- in the current environment, the banks are following a limited lending policy;
- the yield on equity is presently lower than the cost of debt;
- there appears to be demand for additional HPA and HPB linked units in the market place;
- the rights offer will allow all unitholders to subscribe for additional units and is therefore a more equitable manner of raising capital than a private placement; and
- additional linked units floated in the market place are likely to enhance liquidity.

The requisite resolution to give effect to the specific authority for the authorised but unissued shares to be placed under the directors control in order to implement the rights offer to a value not exceeding R600 million is set out below:

"Resolved that a sufficient number of the unissued "A" shares and "B" shares in the authorised but unissued capital of the company be and are hereby placed under the control of the directors of the company to allot and issue such shares, subject to the Companies Act, the company's memorandum and articles of association and the JSE Listings Requirements, to such person(s) and upon such terms and conditions as the directors may determine for the specific purpose of a rights offer to be undertaken by the company, the value of which will not exceed R600 million 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; and
- this authority shall expire at the earlier of the next annual general meeting of the company or the conclusion of the rights offer."

# Notice of annual general meeting of shareholders

continued

## 6.4 Ordinary resolution number 3: Specific authority number 2 for the control of authorised but unissued shares

Hospitality has advised unitholders in an announcement published on SENS that it is currently in negotiations to acquire a 4-star hotel located in Durban for a maximum purchase consideration of R111 million ('the consideration') ('the acquisition').

Subject to successful negotiations being concluded, Hospitality intends to settle the consideration for the hotel by allotting, issuing or otherwise disposing of such number of unissued shares in the authorised capital of the company as would satisfy the consideration. Consequently the following ordinary resolution is proposed:

"Resolved that a sufficient number of the unissued "A" shares and "B" shares in the authorised but unissued capital of the company be and are hereby placed under the control of the directors of the company to allot and issue such shares subject to the Companies Act, the company's memorandum and articles of association and the JSE Listings Requirements, to such person(s) and upon such terms and conditions as the directors may determine for the specific purpose settling the purchase consideration of R111 million for the acquisition, provided that:

- each "A" share shall be linked to one "A" debenture and that each "B" share shall be linked to one "B" debenture; and
- this authority shall expire on the conclusion of the acquisition or the abandonment thereof, whichever comes first."

## 6.5 Ordinary resolution number 4: 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.

All other beneficial shareholders 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, 28 October 2009. 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

19 August 2009

**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 shareholders who have not yet dematerialised their Hospitality linked units;
- registered shareholders 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 shareholders of Hospitality who are unable to attend the 2009 annual general meeting of the company to be held Crowne Plaza Johannesburg – The Rosebank, Cnr Tyrwhitt and Sturdee Avenues, Rosebank, on Friday, 30 October 2009 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 2009 annual financial statements			
2. Retiring directors:			
2.1 Re-election of Mr K H Abdul-Karrim			
2.2 Re-election of Ms B M Madumise			
2.3 Re-election of Mr G A Nelson			
3. Auditor's remuneration			
4. To approve the non-executive directors' fees for 2010			
5. Reappointment of KPMG Inc. as auditors			
6. Resolutions			
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> specific authority number 1 for the control of authorised but unissued shares			
6.4 <b>Ordinary resolution number 3:</b> specific authority number 2 for the control of authorised but unissued shares			
6.5 <b>Ordinary resolution number 4:</b> signature of documentation			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2009

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 shareholders who have not dematerialised their shares or who have dematerialised their shares with “own name” registration. A proxy need not be a shareholder 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 shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed, should such shareholder 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, to authorise a representative to vote, is passed by its directors or governing body. Resolutions authorising representatives in terms of section 188 of the Companies 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 shareholders 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 shareholders 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 shareholder 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 P O Box 61051, Marshalltown, 2107 or faxed to +27 11 688 5238 no later than 10:00 on Wednesday, 28 October 2009.

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.

# Notice of a general meeting of debenture holders

## 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 a general meeting of debenture holders of Hospitality Property Fund Limited will be held at Crowne Plaza Johannesburg – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank on Friday, 30 October 2009 at 11:00 or on conclusion of the annual general meeting of shareholders (commencing at 10:00) to conduct the following business, with or without modification:

## AMENDMENT OF DEBENTURE TRUST DEED

### Introduction

Debenture holders are advised that in terms of new financial accounting principles brought into effect by the International Financial Reporting Standards ('IFRS'), Hospitality is required to expense any transaction costs incurred on any acquisition of property, business operation or shares and claims in a company (as opposed to capitalising these costs).

The revised accounting treatment will have no impact on the debenture interest payments in respect of A-linked units, due to the fixed distribution structure applicable to A-debentures, whereby the A-linked unitholders hold a preferential claim to earnings with capped growth. The debenture interest payment to B-linked unitholders, who receive the balance of the earnings in respect of the B-debentures, will, however, be adversely affected, as the distribution calculation presently does not allow for transaction costs so expensed to be disregarded for the purposes of the calculation.

In order for the distribution calculation to be unaffected by IFRS in its new form, or the future introduction of any revised accounting treatment brought into effect by IFRS, it is proposed that the definition of "net income" as contained in the First Supplemental Debenture Trust Deed to the Principal Debenture Trust Deed, with reference to which the distribution calculation is made, be expanded as per special resolutions number 1 and 2.

### 1. Special resolution number 1: Amendment of debenture trust deed

"Resolved that the definition of "net income" as contained in the First Supplemental Debenture Trust Deed be expanded by inserting a new clause as follows:

1.12.6 adding back any transaction costs incurred and expensed on any acquisition of property, a business operation or the shares and claims in a company, which, in the opinion of the directors, following recommendation by the audit committee, should not affect the distribution calculation."

### 2. Special resolution number 2: Amendment of debenture trust deed

"Resolved that the definition of "net income" as contained in the First Supplemental Debenture Trust Deed be expanded by inserting a new clause as follows:

1.12.7 excluding any IFRS accounting standard change subsequent to 1 July 2009 which requires an amount to be brought to account and which in the opinion of the directors, following recommendation by the audit committee, should not affect the distribution calculation."

### Reason for and effect of special resolutions number 1 and 2:

The reason for and effect of special resolutions number 1 and 2 is to enable the amendment of the definition of "net income" in the First Supplemental Debenture Trust Deed to the Principal Debenture Trust Deed entered into between Hospitality Property Fund Limited and the Trustee, Edward Nathan Sonnenberg Inc. (the successor in practice to Edward Nathan (Pty) Limited) for distribution calculation purposes, so that the debenture interest payments received by B-linked unitholders will remain unaffected by the recent and any future introduction of revised accounting treatment(s) by IFRS.

# Notice of a general meeting of debenture holders

*continued*

### 3. Ordinary resolution number 1: Authority to act

“Resolved that any director of the company or its 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 resolution.”

### Voting and proxies

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

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

- holding A or B linked units in certificated form; or
- recorded on sub-register in dematerialised electronic form with “own name” registration.

All other debenture holders who have dematerialised their linked units through a Central Securities Depository Participant ('CSDP') or broker and wish to attend the 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 debenture holders 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, 28 October 2009. Any debenture holder who is entitled to complete and lodge a form of proxy and so completes and lodges a proxy form will nevertheless be entitled to attend and vote in person at the general meeting should the debenture holder decide to do so.

By order of the board



Hospitality Property Fund Managers (Pty) Limited  
Secretaries

19 August 2009

# Proxy form for debenture holders

## 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 debenture holders who have not yet dematerialised their Hospitality linked units;
- registered debenture holders who have already dematerialised their Hospitality linked units and which units are registered in their own names in the company's sub-register.

For completion by the aforesaid registered debenture holders of Hospitality who are unable to attend the general meeting of debenture holders of the company to be held at Crowne Plaza Johannesburg – The Rosebank, Cnr Tyrwhitt & Sturdee Avenues, Rosebank, on Friday, 30 October 2009, at 11:00 or on conclusion of the annual general meeting of shareholders (commencing at 10:00) ("the 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 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 general meeting of the debenture holders and at any adjournment thereof, as follows:

Business	For	Against	Abstain
1. <b>Special resolution number 1:</b> amendment to definition of "net income" in the First Supplemental Debenture Trust Deed.			
2. <b>Special resolution number 2:</b> amendment to definition of "net income" in the First Supplemental Debenture Trust Deed.			
3. <b>Ordinary resolution number 1:</b> authority to act.			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2009

Signature(s)

Assisted by (where applicable)

Please read notes overleaf.

## Notes to the form of proxy

1. Only debenture holders who have not dematerialised their linked units or who have dematerialised their linked units with “own name” registration may complete a form of proxy or attend the general meeting. A proxy need not be a debenture holder of the company.
2. Dematerialised debenture holders 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 general meeting, must instruct the CSDP or broker to provide them with the necessary Letter of Representation.
3. Dematerialised debenture holders 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 general meeting, must timeously provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between that debenture holder and the CSDP or broker.
4. The completion and lodging of this form will not preclude a debenture holder referred to in paragraph 1 from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed, should such debenture holder 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 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 (Act 61 of 1973), as amended (‘the Act’) 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 by no later than 48 hours (excluding Saturdays, Sundays and public holidays) prior to the time fixed for this meeting.
9. Where there are joint holders of debentures any one of such persons may vote at any meeting in respect of such debentures 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 debenture holders of such debentures or his proxy, as the case may be shall alone be entitled to vote in respect thereof.
10. On a show of hands, every debenture holder of the company present in person or as a representative of a company or other body corporate shall have one vote only. On a poll a debenture holder who is present in person or as a representative of a company or body corporate or by proxy shall be entitled to one vote for each debenture of which he is the registered holder or representative.
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 manner in which a debenture holders 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 P O Box 61051, Marshalltown, 2107 or faxed to +2711 688 5238 by no later than 10:00 on Wednesday, 28 October 2009.

Debenture holders of each class of debentures holding not less than of 25% of the debentures of the relevant class issued at the time present in person or by proxy shall constitute a quorum for the general meeting.

# 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 50% of the fund's revenue is based on fixed leases with operators while an estimated 44% 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) (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (48%).

### 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 CPI (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.

# Management and administration

continued

## 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 abovementioned 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; and
- a development fee of 2% of the total development costs on any developments or refurbishments.

## 2. TENANTS

### C-CORP LEASES

Majomatic 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 (52%) and HTLAM (48%).

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

### Protea Hotels

Protea Hotels is the largest hotel group in Africa with the most extensive network – over 100 fine hospitality establishments in nine countries on the African continent. The company was founded in 1984 and has grown its portfolio and brands since. In April 2009 a consortium represented by Investec Private Equity, Protea BBBEE partners and management purchased the company's equity back from Australian-based Stella Group. This transaction resulted in the hospitality group reverting to being a 100% wholly owned South African subsidiary.

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 Crowne Plaza Jhb – The Rosebank, Holiday Inn Sandton – Rivonia Road, The Mount Grace Country House & Spa, Protea Hotel – The Winkler, Protea Hotel – The Richards, Protea Hotel Hazyview, Protea Hotel Imperial, The Bayshore Inn, Protea Hotel Hluhluwe & Safaris is transferred to the Fund.

HHMC is owned by Grapnel (58%) and HTLAM (42%). The management team has substantial supporting skills acquired in areas such as sales and marketing, finance, 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 manages and franchises under the Radisson Blu, Park Inn, Regent, Country Inn and Hotel 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 & Resorts International**

The King David Hotel in East London is managed by Premier Hotels & Resorts International on behalf of the tenant, which manages eight 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.

##### **Champagne Sports Resort**

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

##### **Birchwood Hotel Management Company**

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

##### **Kopanong Hotel and Conference Centre**

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

## Corporate information

### SECRETARIES AND MANAGERS

Hospitality Property Fund Managers (Pty) 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)

### TRUSTEE TO DEBENTURE HOLDERS

Edward Nathan Sonnenberg Inc  
150 West Street  
Sandown, 2196  
(PO Box 783347, Sandton, 2146)



*Mount Grace Country House & Spa*

