



**2011**  
Integrated Report

*Hospitality*  
PROPERTY FUND

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## Scope of this report

This report, compiled for Hospitality Property Fund Limited ("Hospitality" or "the Fund"), covers the financial year 1 July 2010 to 30 June 2011.

This is the Fund's first integrated report which comprises commentary relating to the business environment and the operational performance, including the risks and opportunities that face Hospitality. The mitigation strategies are discussed in the Executive Review, the corporate governance and sustainability sections of this report. The report also includes disclosure on the Fund's environmental, social and governance issues. The fundamental link between the financial and non-financial performance and how they influence Hospitality's stakeholders as well as its business and investment strategy was considered during the preparation of this report.

The JSE Limited (JSE) requires companies listed on the Exchange to produce integrated reports, in line with the recommendations of the South African Code of Corporate Practice and Conduct set out in the third King Report on Corporate Governance (King III). In addition, best practice frameworks which have been adopted in the industry were also used as guidelines for the information contained herein.

This integrated report has focused on the most material sustainability issues that drive business strategy. The issues identified are as a result of an analysis of stakeholder concerns, business risk analysis and global trends and how they impact the long-term business sustainability.

# Corporate profile

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

The Fund listed with a portfolio of sixteen properties valued at around R1,0 billion and the portfolio has since grown to twenty-six properties with a market value of approximately R3,9 billion. The Fund was established with the aim of offering unitholders a unique investment vehicle with exposure to the hospitality sector through the ownership of hotel and leisure properties. The Fund consists of investments in hotel and resort properties in South Africa, and is highly diversified in terms of geographic location, star grading, fixed and variable income and market mix.

Underpinned by its broad portfolio, the Fund effectively caters to the requirements of a wide ranging target market, including business travel, leisure travel and conferencing which contributed approximately 41%, 29% and 30%, respectively, to hotel revenue in 2011. Well-located, quality properties with strong brands offering a superior guest experience are the key differentiators which enable the Fund to generate positive returns for unitholders.

Hospitality is the largest multi-branded hotel owner in South Africa and has built strong partnerships with well-recognised local and

international hotel brands. Through these long-term partnerships, the Fund leverages the value of its portfolio.

The Fund's profits are distributed in full as debenture interest, free of tax and linked unitholders are consequently taxed according to their individual tax status. The Fund comprises a total of 88,8 million A-linked units and 88,8 million B-linked units, which are traded on the JSE under the codes HPA and HPB, respectively. The A-linked units have a preferential claim to earnings with capped growth. The B-linked units receive the balance of the earnings.

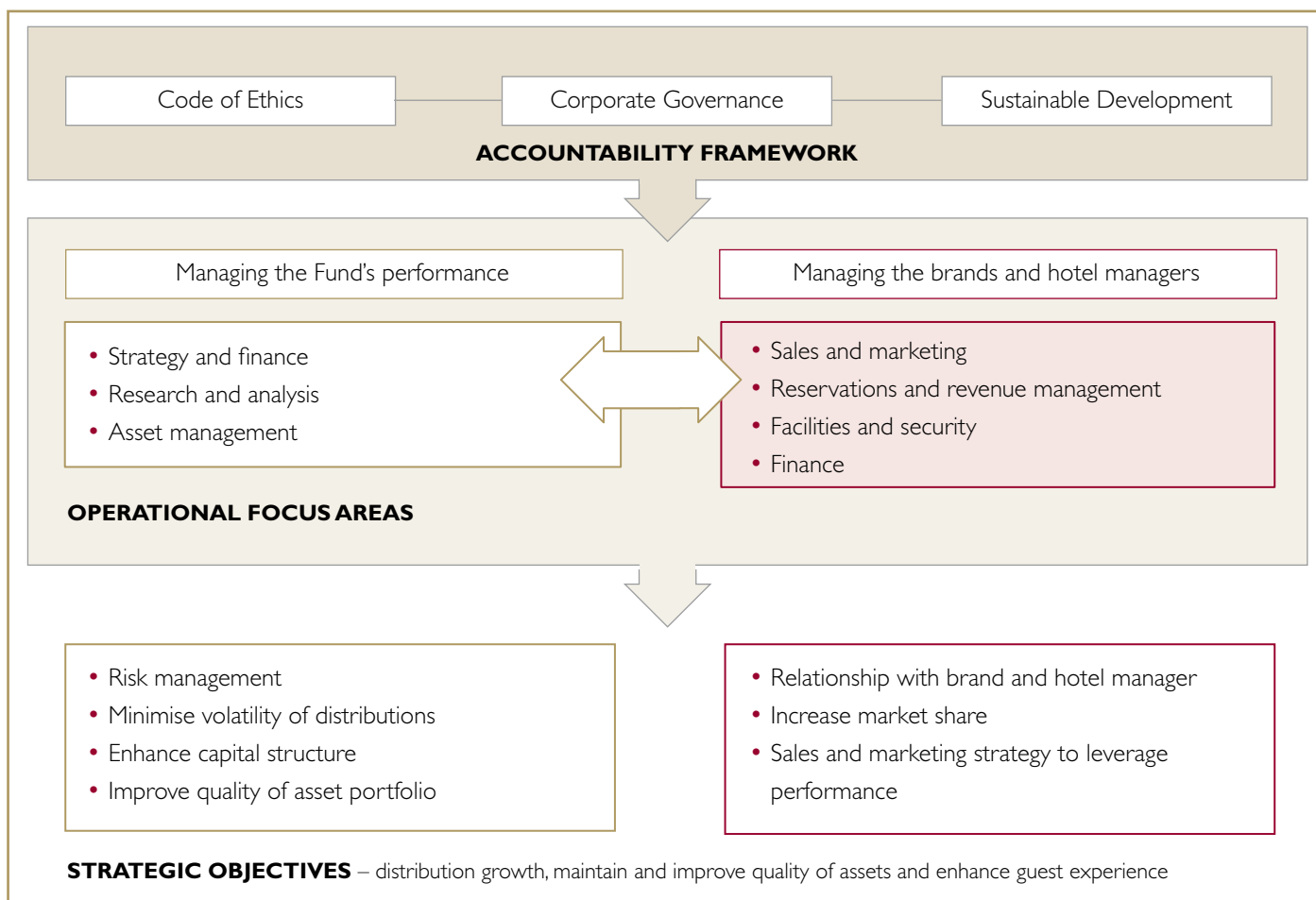
As at 30 June 2011 the properties were independently valued at R3,9 billion and the net asset value was R12,71 per linked unit (excluding deferred tax). At this date, the Fund was trading at a 11,9% discount to net asset value on a combined unit basis.

Sustainable development is core to the Fund's philosophy of striving towards having a positive impact on all its stakeholders. It had a BEE ownership component of some 15,8% at 30 June 2011. It continued to pro-actively implement measures to reduce its environmental impacts, focusing on power and water consumption as well as nature conservation.

*Situated on the famous Durban Golden Mile, with an ambience of stylish elegance and sophistication, the **Protea Hotel Edward** has played host to Princes and Presidents, Field Marshals, millionaires and movie stars since 1911. The refurbished bedrooms and public areas were completed in May 2011 to coincide with the hotel's centenary celebrations.*  
[www.proteahotels.com/edwarddurban](http://www.proteahotels.com/edwarddurban)



# Fund structure and objectives

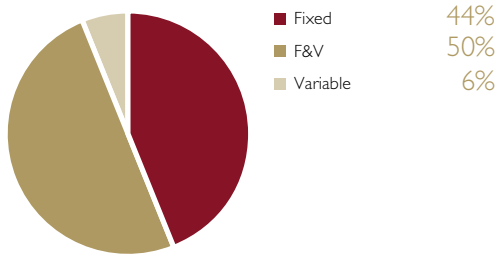


## Strategic objectives

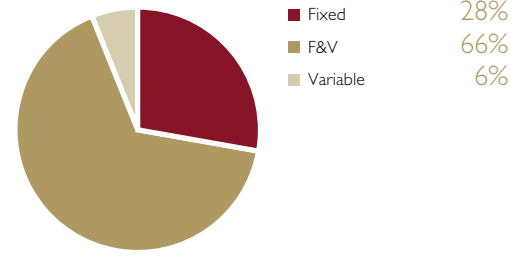
|                         |  |
|-------------------------|--|
| Fund                    | <ul style="list-style-type: none"> <li>• Maintain and grow distributions to unitholders</li> <li>• Manage risks to minimise volatility of distributions (by ensuring sustainable lease structures and optimising operating income)</li> <li>• Enhance capital structure to equitably compensate all classes of unitholders</li> <li>• Continually focus on quality of earnings by migrating towards larger, more stable, well-located assets with strong brands</li> </ul> |
| Hotel and Leisure       | <ul style="list-style-type: none"> <li>• Match each property with the most appropriate brand and manager to optimise performance</li> <li>• Focus on increasing market share by continually improving guest experience and satisfaction</li> <li>• Leverage the best performance from managers with sales and marketing strategies to build awareness and increase market penetration</li> </ul>   |
| Sustainable development | <ul style="list-style-type: none"> <li>• Pursue high standards of corporate citizenship and sustainable development with a focus on education, CSI and minimising environmental impacts of operations</li> </ul>   |

# Salient features

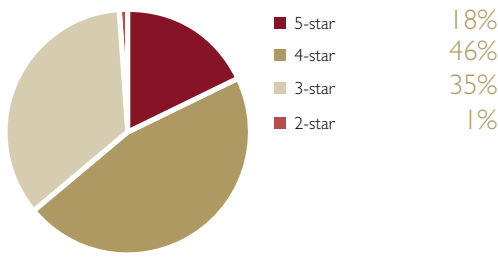
Gross rental income by lease type



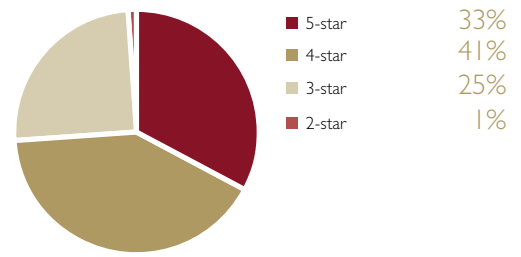
Property value by lease type



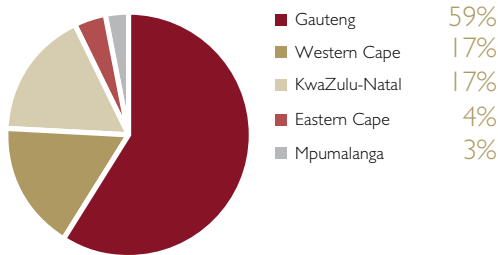
Gross rental income by star grading



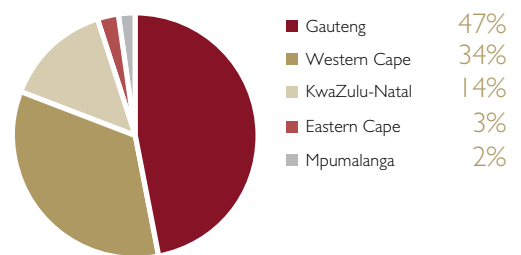
Property value by star grading



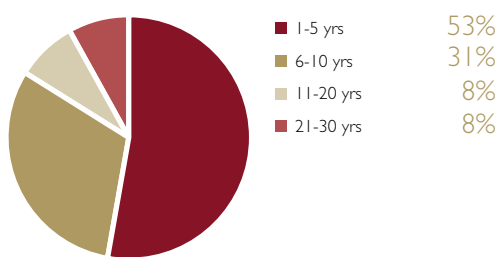
Gross rental income by locality



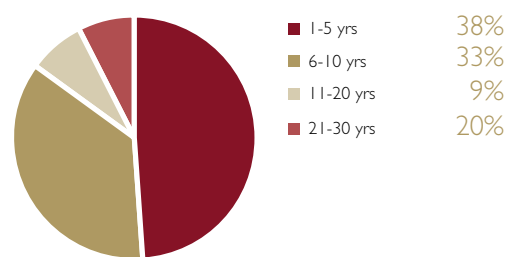
Property value by locality



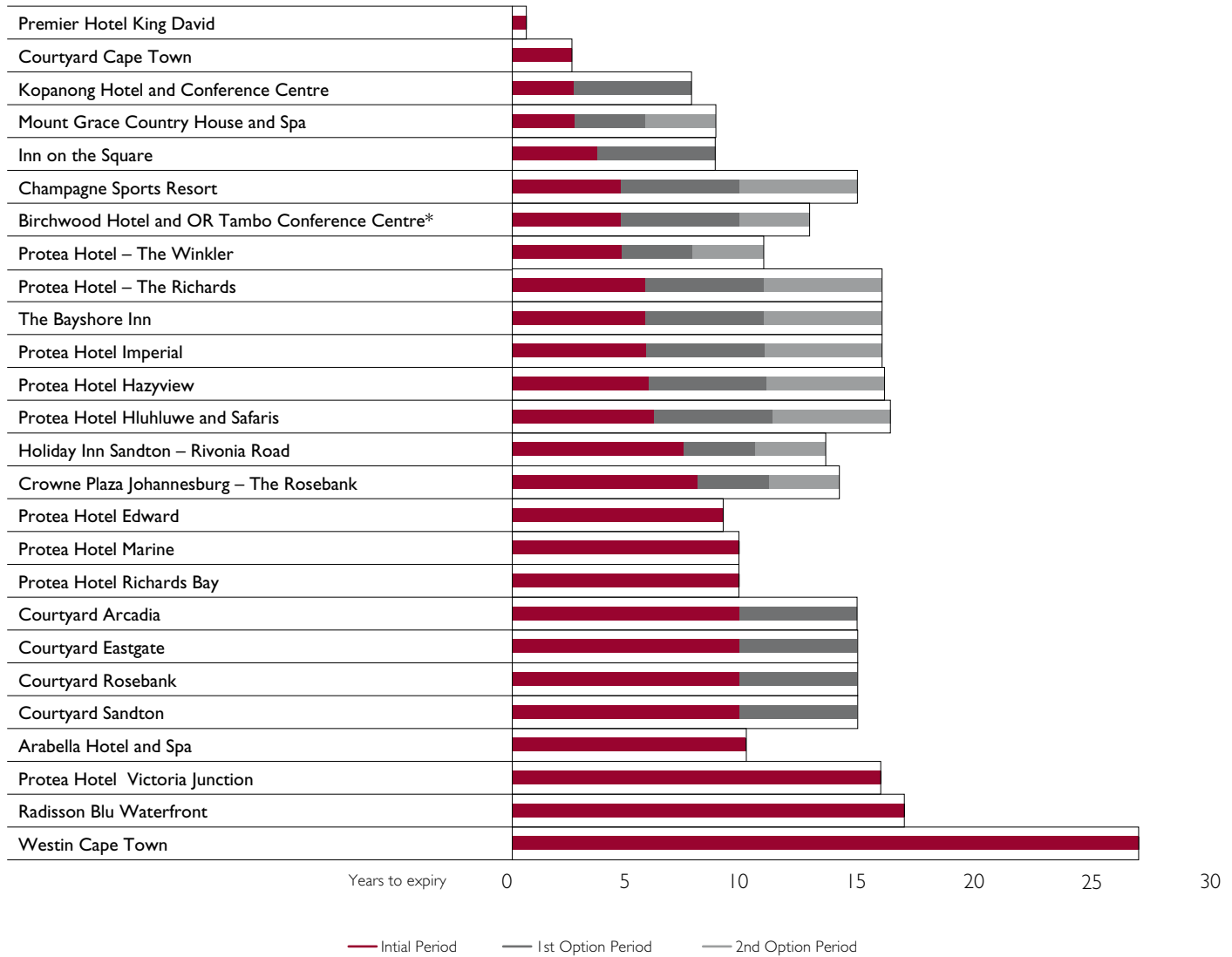
Gross rental income by lease expiry period



Property value by lease expiry period



## Lease expiry profile (years)



\* The lease on the Birchwood Hotel and OR Tambo Conference Centre has been renegotiated post year end. A new ten year lease has been concluded effective from 1 July 2011



Transfer of the landmark **Westin Cape Town** hotel to Hospitality was effected on 13 May 2011. The acquisition is in line with the Fund's strategic objective of acquiring larger, more stable, well located assets with strong brands in major metropolitan areas.  
[www.westincapetown.com](http://www.westincapetown.com)

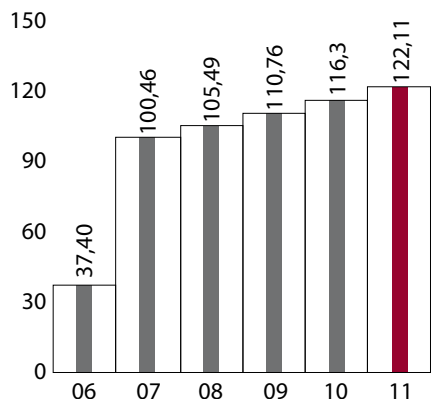


# Six-year overview

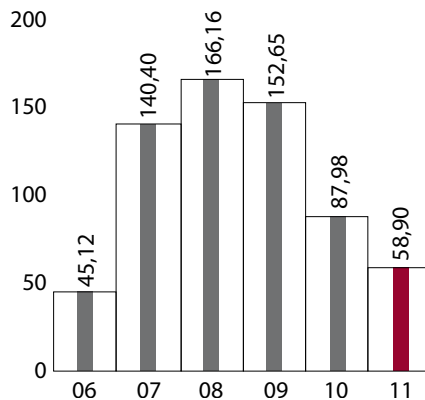
|   | *2006  | 2007   | 2008   | 2009   | 2010   | 2011          |
|---|--------|--------|--------|--------|--------|---------------|
|   | R000   | R000   | R000   | R000   | R000   | R000          |
| Distribution per A-linked unit (cents)                          | 37,40  | 100,46 | 105,49 | 110,76 | 116,3  | <b>122,11</b> |
| Growth in distribution – A-linked unit (%)                      |        | 5,0    | 5,0    | 5,0    | 5,0    | <b>5,0</b>    |
| Weighted average number of A-linked units (million)             | 36,17  | 39,53  | 56,64  | 61,59  | 62,47  | <b>80,46</b>  |
| Distribution per B-linked unit (cents)                          | 45,12  | 140,40 | 166,16 | 152,65 | 87,98  | <b>58,90</b>  |
| Growth in distribution – B-linked unit (%)                      |        | 16,7   | 18,3   | (8,1)  | (42,4) | <b>(33,1)</b> |
| Weighted average number of B-linked units (million)             | 36,17  | 39,53  | 56,64  | 61,59  | 62,47  | <b>80,46</b>  |
| Distribution per combined linked unit (cents)                   | 82,52  | 240,86 | 271,65 | 263,41 | 204,28 | <b>181,01</b> |
| Growth in distribution – combined linked unit (%)               |        | 9,5    | 12,8   | (3,0)  | (22,4) | <b>(11,4)</b> |
| Weighted average number of combined units (million)             | 72,35  | 79,06  | 113,28 | 123,18 | 124,94 | <b>160,92</b> |
| Property value (R million)                                      | 1 161  | 1 669  | 2 260  | 3 404  | 3 318  | <b>3 956</b>  |
| Interest-bearing liabilities (R million)                        | 251    | 251    | 280    | 1 014  | 1 308  | <b>1 740</b>  |
| Gearing to property value (%)                                   | 21,6   | 15,0   | 12,4   | 29,8   | 39,4   | <b>44,0</b>   |
| Net asset value (NAV) per unit (excluding deferred tax) (cents) |        |        |        |        |        |               |
| A-linked  | 1 206  | 1 461  | 1 718  | 1 793  | 1 535  | <b>1 271</b>  |
| B-linked  | 1 206  | 1 461  | 1 718  | 1 793  | 1 535  | <b>1 271</b>  |
| Closing market price (cents)                                    |        |        |        |        |        |               |
| A-linked  | 1 100  | 1 421  | 1 065  | 1 101  | 1 290  | <b>1 441</b>  |
| B-linked  | 1 020  | 2 060  | 1 490  | 1 389  | 1 090  | <b>750</b>    |
| (Discount) or premium to NAV (%)                                |        |        |        |        |        |               |
| A-linked  | (8,8)  | (2,7)  | (38,0) | (38,6) | (16,0) | <b>13,4</b>   |
| B-linked  | (15,4) | 41,0   | (13,3) | (22,5) | (29,0) | <b>(41,0)</b> |
| Growth in unit price (%)  |        |        |        |        |        |               |
| A-linked  | 10,0   | 29,2   | (25,1) | 3,4    | 17,2   | <b>11,7</b>   |
| B-linked  | 2,0    | 102,0  | (27,7) | (6,8)  | (21,5) | <b>(31,2)</b> |
| Total return (%)  |        |        |        |        |        |               |
| A-linked  | 13,7   | 38,3   | (17,6) | 13,8   | 27,7   | <b>21,2</b>   |
| B-linked  | 6,5    | 115,7  | (19,6) | 3,5    | (15,2) | <b>(25,8)</b> |
| Percentage of gross rental income (%)                           |        |        |        |        |        |               |
| Fixed leases  | 62,4   | 58,0   | 53,0   | 50,4   | 44,3   | <b>44,0</b>   |
| F&V leases  | 29,0   | 34,0   | 41,0   | 44,0   | 50,2   | <b>50,0</b>   |
| Variable leases   | 8,6    | 8,0    | 6,0    | 5,6    | 5,5    | <b>6,0</b>    |
| Number of properties  | 16     | 21     | 22     | 23     | 24     | <b>26</b>     |

\* 4 ½ months reporting period

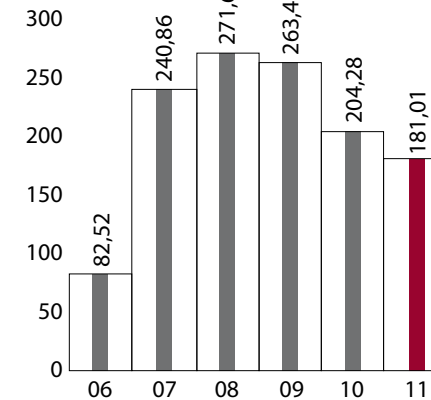
Distribution per A-linked unit (cents)



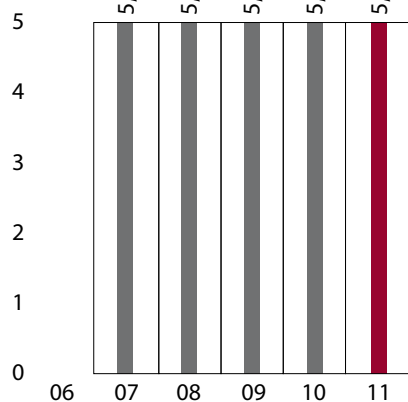
Distribution per B-linked unit (cents)



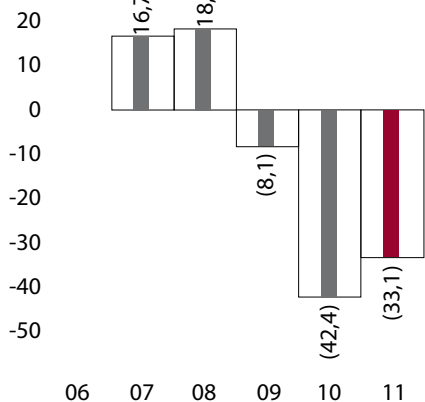
Distribution per combined linked unit (cents)



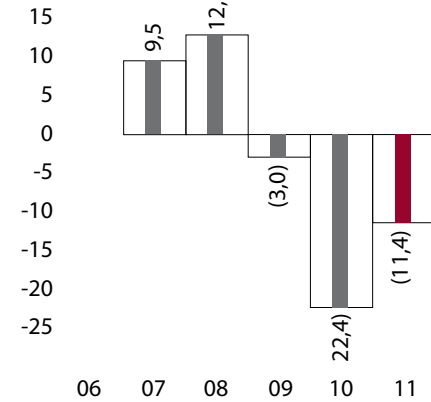
Growth in distribution – A-linked unit (%)



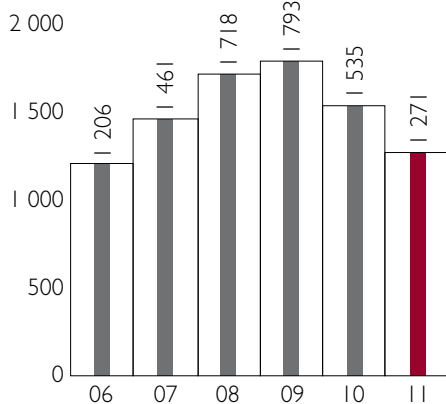
Growth in distribution – B-linked unit (%)



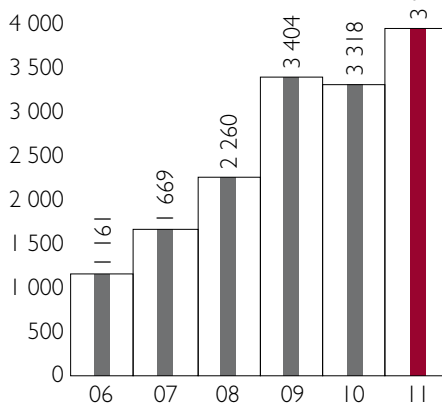
Growth in distribution – Combined linked unit (cents)



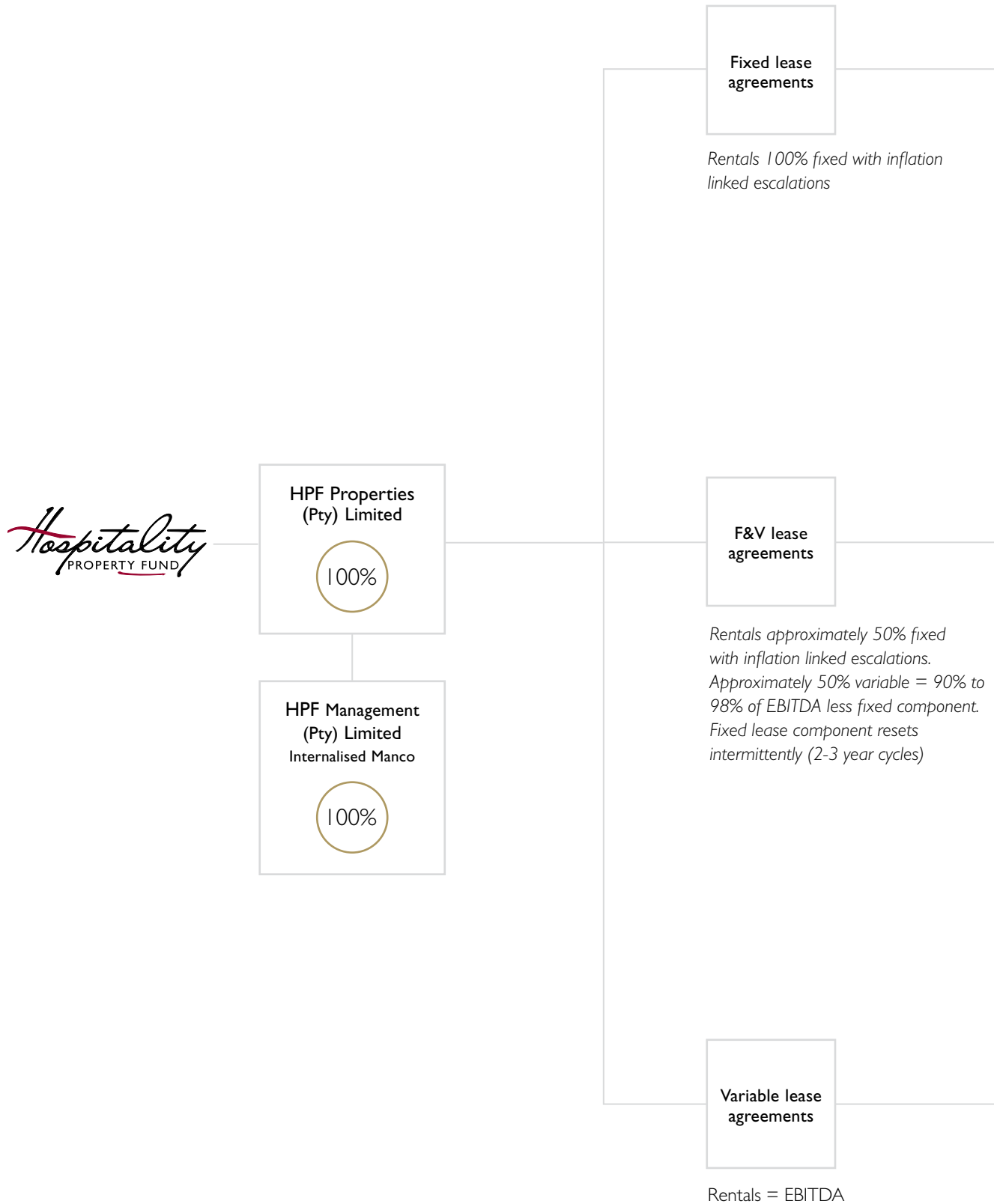
Net asset value (NAV) per unit (cents)



Portfolio value (R million)



# Group structure





Birchwood Hotel and OR Tambo Conference Centre



Champagne Sports Resort



Kopanong Hotel and Conference Centre



Premier Hotel King David

80%



Arabella Hotel and Spa



Crowne Plaza Johannesburg – The Rosebank



Holiday Inn Sandton Rivonia Road



Inn on the Square



Mount Grace Country House and Spa



Protea Hotel Edward



Protea Hotel Hazyview



Protea Hotel Hluhluwe and Safaris



Protea Hotel Imperial



Protea Hotel Marine



Protea Hotel Richards Bay



Protea Hotel The Richards



Protea Hotel The Winkler



Protea Hotel Victoria Junction



The Bayshore Inn



Westin – Cape Town



Radisson Blu Waterfront

37%



Courtyard Arcadia

50%



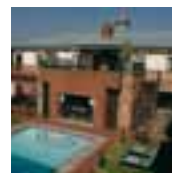
Courtyard Cape Town

50%



Courtyard Eastgate

50%



Courtyard Rosebank

32%



Courtyard Sandton

26%

# Management and administration

Details of the hotel operators managing properties owned by the Fund are set out below:



## Birchwood Hotel Management Company

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



## 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. The management company also manages the timeshare component of the resort on behalf of the Champagne Shareblock company.



CITY LODGE  
HOTELS LIMITED



COURTYARD

## City Lodge Hotels Limited

The JSE-listed City Lodge Hotels Limited (City Lodge) is one of South Africa's leading hotel groups, with 52 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 with City Lodge. The Courtyards in Arcadia, Cape Town and Eastgate are jointly owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

## Extrabold Hotel Management

Extrabold was established upon the listing of Hospitality to manage The Rosebank Hotel as it embarked on a substantial repositioning of this property. Hospitality subsequently appointed Extrabold as managers of a number of its other hotels.

Extrabold manages: Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Protea Hotel Hazyview, Protea Hotel Hluhluwe and Safaris, Protea Hotel Imperial, Protea Hotel The Richards, Protea Hotel The Winkler, The Bayshore Inn and Mount Grace Country House and Spa.

Extrabold's management team has wide ranging experience and expertise and provides a comprehensive hotel management framework. It has established significant central support resources and proprietary systems to extract superior value from the assets they manage.



## 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.



## Premier Hotels and Resorts International

The Premier Hotel King David in East London is leased and managed by Premier Hotels and Resorts International, which manages ten hotels in South Africa, the majority of which are situated in the Eastern Cape.



## Protea Hospitality Group

Protea Hotels, founded in 1984, is the largest hotel group in Africa with more than 125 fine hospitality establishments in eight countries on the African continent. The group comprises two brands, namely the mid-upmarket Protea Hotels brand (including the lifestyle brand Protea Hotel Fire & Ice!) and the luxury African Pride Hotels, Lodges and Country Houses brand. Protea Hotels was awarded 'Coolest Hotel Brand' for 2011 and is a three-time winner of the 'Top Hotel Brand Award'.

Protea Hospitality Group manages and markets the Arabella Hotel and Spa, under the African Pride Hotels brand and the Protea Hotel Marine in Port Elizabeth, Protea Hotel Richards Bay, Protea Hotel Edward and Protea Hotel Victoria Junction under the Protea Hotels brand for Hospitality.





**starwood**  
Hotels and  
Resorts

**WESTIN**  
HOTELS & RESORTS

## Starwood Hotels and Resorts

Starwood® Hotels is one of the leading hotel and leisure companies in the world, owning 1 041 properties in over a hundred countries with 145 000 employees. Starwood Hotels has the following international brands: St. Regis®, the Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points® by Sheraton, and the recently launched Aloft®, and Element SM.

Starwood has over 170 Westin hotels and resorts in over 36 countries and territories. The Westin Cape Town, located adjacent to the Cape Town International Convention Centre, is managed by Starwood Hotels & Resorts Worldwide Inc. and is the only Westin located in the Africa and Indian Ocean region. Most of the 483 rooms and suites offer floor to ceiling panoramic views of either the City, Table Mountain or Table Bay harbour. The Westin Cape Town is widely considered to be one of the finest conferencing and banqueting locations in South Africa, with ample meeting and events facilities, state-of-the-art technology and a direct link to the Cape Town International Convention Centre.



THE  
**REZIDOR**  
HOTEL GROUP

**Radisson** BLU  
HOTELS & RESORTS

## The Rezidor Hotel Group

The Rezidor Hotel Group, a listed company on the Stockholm Stock Exchange operating under the brand names of Radisson Blu Hotels & Resorts, Park Inn by Radisson and Hotel Missoni is one of the fastest growing and most dynamic hotel companies in the world. Rezidor has seen unparalleled growth, taking the company's portfolio from 29 hotels in 1994 to today boasting more than 420 hotels open or under development, in over 64 countries, operating more than 90 000 rooms across Europe, Middle East and Africa. Rezidor operates the Radisson Blu Waterfront, Cape Town, under a hotel management agreement which was entered into between Rezidor and the rental pool of this sectional title hotel property.



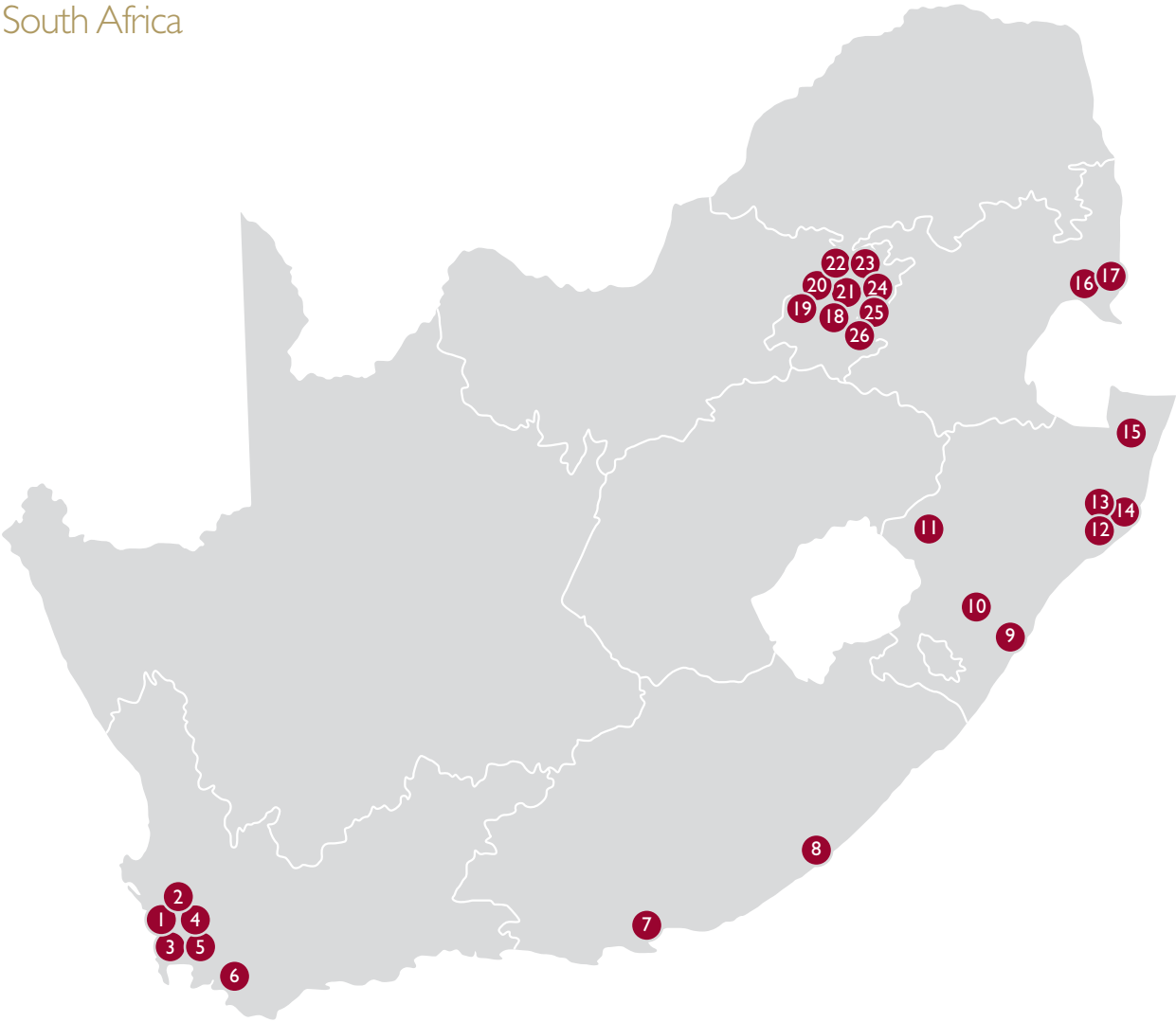
**Three Cities**

## Three Cities Hotel Group

The Three Cities Group manages and markets over 40 tourism and leisure properties in Southern Africa encompassing four portfolios – City Hotels, Resorts, Exceptional Safaris and the Exceptional Collection. Three Cities is also the leader of private tertiary training and education for the hospitality industry in South Africa, with the International Hotel School being the largest private hospitality training provider with campuses in Cape Town, Durban and Sandton. Three Cities manages the Inn on the Square for Hospitality.

# Geographic locations

## South Africa



- 1. Westin Cape Town
- 2. Radisson Blu Waterfront
- 3. Protea Hotel Victoria Junction
- 4. Courtyard Cape Town
- 5. Inn on the Square
- 6. Arabella Hotel and Spa
- 7. Protea Hotel Marine
- 8. Premier Hotel King David
- 9. Protea Hotel Edward
- 10. Protea Hotel Imperial
- 11. Champagne Sports Resort
- 12. Protea Hotel – Richards Bay
- 13. The Bayshore Inn
- 14. Protea Hotel – The Richards
- 15. Protea Hotel Hluhluwe and Safaris
- 16. Protea Hotel The Winkler
- 17. Protea Hotel Hazyview
- 18. Birchwood Hotel and OR Tambo Conference Centre
- 19. Crowne Plaza Johannesburg – The Rosebank
- 20. Holiday Inn Sandton Rivonia Road
- 21. Kopanong Hotel and Conference Centre
- 22. Mount Grace Country House and Spa
- 23. Courtyard Rosebank
- 24. Courtyard Sandton
- 25. Courtyard Arcadia
- 26. Courtyard Eastgate

# Business environment and impact

The domestic economy showed signs of recovery during the financial year, but sentiment remained highly correlated to global news flows. There had been indications that major economies were starting to recover, but recent global events, since July 2011, indicate that the economic crisis is by no means over.

## Global macro-economic overview

The ratings downgrade of US debt and evidence that several European economies could still default on sovereign debt are a clear reminder that the consequences of this crisis will still be felt for years to come. Where a normal cyclical downturn can effectively be moderated by easing monetary policy, it is becoming increasingly apparent that there is no quick fix for the current balance sheet recession.

Public sector debt has reached record highs since the onset of the crisis in 2008 and lower tax revenues are resulting from the loss of employment and lower corporate earnings. In addition, quantitative easing has only provided temporary relief from the global issues. With declining house prices, depressed equity markets and high rates of unemployment, household debt across the globe is set to remain high.

After recovering in the first half of 2011, the spectre of a recession returned to the US economy. Recent statements by the US Federal Reserve Bank that the US rate policy was likely to remain accommodative until mid-2013 suggests an acceptance that the economic weakness is structural. The economies of Germany and France are starting to show the impacts of their banks' debt exposure to Portugal, Ireland, Greece, Spain and Italy. The cumulative impact is that, after successive attempts by major economies to stem the impact of the financial crisis, the world's economy remains in intensive care. The road to recovery will have to be driven by growth to sustainably improve sovereign balance sheets, rather than short-term fiscal stimuli.

## Domestic macro-economic overview

For the South African economy which is a net exporter and whose biggest trading partners are the US and Europe, the implications cannot be underestimated. The disappointing rate of gross fixed capital formation, particularly in the private sector has limited the pace of recovery. Even though the country technically came out of recession during the 2010 calendar year, this positive trend could be reversed if the worst case scenario materialises internationally, resulting in lower tax revenues and slow public spending to drive the recovery. Fixed inward investment could catalyse a recovery, but the current labour policies and political uncertainty are not conducive to attracting foreign capital.

In South Africa, the year started out on a high note as the country successfully hosted the 2010 FIFA World Cup™ and although consumer demand is improving, the average South African remains relatively highly geared and business confidence is reflecting a downward trend.





A fusion of contemporary luxury and classic charm, **Mount Grace Country House and Spa** is an elegant country hideaway nestled among the ruggedly beautiful Magaliesberg Mountains merely an hours drive from Johannesburg and Pretoria. Recent awards include: Winner – World's Luxury Spa awards 2011; Best Resort / Hotel Spa – Professional Beauty Award for 2010; Finalist – Les Nouvelles Spa award 2010 and Winner – Diners Club Wine List Awards 2010.  
[www.mountgrace.co.za](http://www.mountgrace.co.za)





The South African economy continues to grow, albeit at a lower rate than its emerging market BRIC (Brazil, Russian, India, China) peers. The South African GDP showed quarter-on-quarter growth of 4,8% in the first quarter of 2011 which was underpinned by a strong manufacturing sector.

Household consumption, which makes up some 60% of GDP, has led the domestic recovery as income levels have shown real growth. This has been due to low inflation and high wage settlements. Household debt and unemployment continue to climb; suggesting that the consumer-led recovery is delicate.

The Consumer Price Index (CPI) inflation rate climbed to 5,0% in June 2011 compared to 4,2% a year earlier; driven by a steep rise in the price of electricity, fuel, assessment rates and education. The electricity tariff hikes in July 2011 are expected to have a further negative impact.

The South African Reserve Bank (SARB) decreased interest rates by a further 50 basis points in November 2010 to a 5,5% REPO rate. The SARB's short-term stance on increasing interest rates is likely to be conservative, especially given that it did not follow many emerging economies' decisions to tighten monetary policy. There is even an emerging sentiment suggesting the possibility of a rate cut as the next move.

The Rand, which has been a barometer of global perceptions or confidence rather than the financial health of the local economy, strengthened by a further 11,8% to R6,75 against the US Dollar in the 12 months to 30 June 2011. However, after year-end, it depreciated against the US Dollar, largely as a result of risk aversion associated with the most recent international economic turmoil.

Although South Africa benefited from improved perceptions after the World Cup, it will continue to be faced with the overhang for several years to come, with the travel and leisure sector being amongst the worst affected.

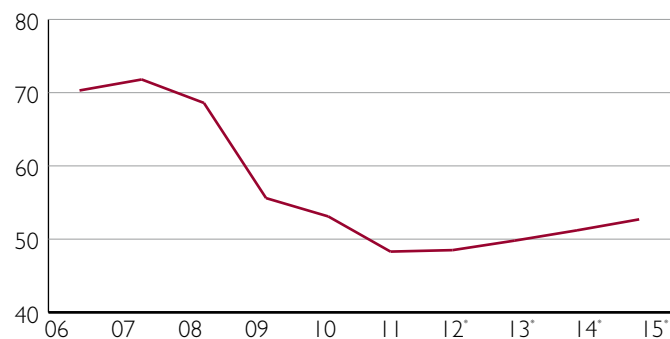
### Hospitality sector overview

Demand growth in the hospitality sector remained muted during the year, reflecting the continued uncertainty on the global economic front that also spilt over into South Africa. In the hospitality industry, these tough trading conditions were exacerbated by an oversupply of rooms.

Statistics SA disclosed that the trend in foreign tourist arrivals to South Africa remained positive in 2010, with an increase of 15,1% to 8,07 million tourists, a slight decline from the 16,3% increase in 2009. According to the Tourism Ministry, domestic tourism is growing twice as fast as global tourism. In total 309 554 foreign tourists arrived in South Africa for the primary purpose of attending the World Cup, spending a total of R3,64 billion.

Of the 8,07 million foreign tourists to South Africa in 2010, 68,9% were residents of South African Development Community (SADC) countries who stayed for an average of two to three days. Visitors from other African countries and overseas stayed for up to seven days. The biggest foreign markets for South Africa after SADC countries are the UK, USA and Germany. The leisure travel

Occupancy rates (%)



\* Estimates

Source: PriceWaterhouseCoopers LLP, Wilkofsky Groen and Associates (PWC)

segment, comprising more than nine out of every ten foreign visitors, grew 12,7% in 2010, while business travel showed an increase of 18,3%.

According to the Smith Travel Research (STR) global hotel benchmark report, overall occupancies in South Africa for all hotels for the 12 months ended June 2011, declined 6,6% to 53,9% compared to the same period in 2010. The average room rate (ARR) decreased by 3,4% over the same period to R866.

The underlying trends provide evidence that demand for hotel rooms is growing. However, the supply and demand dynamics shifted during the five-year lead up to the World Cup as the hotel industry experienced speculative activity and 11 300 new hotel rooms came onto the market between 2005 and 2010 (PWC). This would have led to an oversupply of accommodation under normal economic growth, but was exacerbated by the 2008 global economic crisis. The impact has been lower occupancy rates industry-wide as demand has not kept pace with the sharp increase in supply and, consequently, room rates have been under pressure.

## Listed property sector review

The South African listed property sector has outperformed for the past decade, delivering excellent returns on a risk-adjusted basis. The sector was regarded as a safe haven during the economic crisis and subsequent recession. This is evidenced by the market capitalisation of the combined listed property sector which continues to increase, reinforcing its position as a distinctive asset class. The sector has a combined market capitalisation of more than R130 billion, with property loan stocks weighing in at the R90 billion mark, spread over 13 listed companies.

The comparative performance of the sector for the twelve months to June 2011 is as follows:

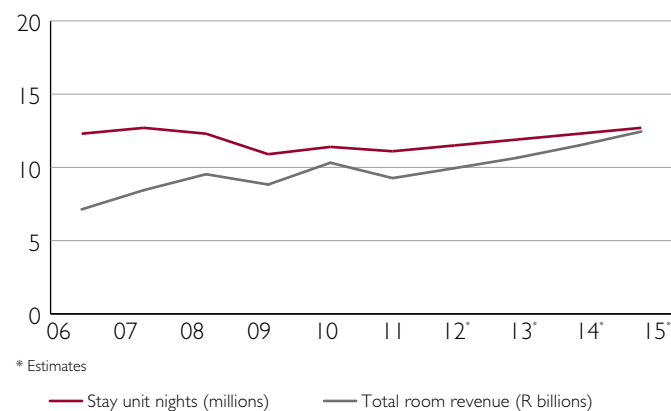
| Asset class                     | Twelve months |
|---------------------------------|---------------|
| SA Listed Property <sup>1</sup> | 20,5%         |
| Equities <sup>2</sup>           | 24,6%         |
| Bonds <sup>3</sup>              | 11,3%         |
| Cash                            | 6,2%          |

<sup>1</sup> SA Listed Property Index <sup>2</sup> All Share Index <sup>3</sup> All Bond Index

Against the backdrop of broader equity market strength which was driven by resources in the past year, the listed property sector marginally underperformed general equities with a total return of 20,5% compared to 24,6% on the JSE All Share Index in the 12 months to 30 June 2011. The total return for bonds and cash over the same time horizon was 11,3% and 6,2%, respectively.

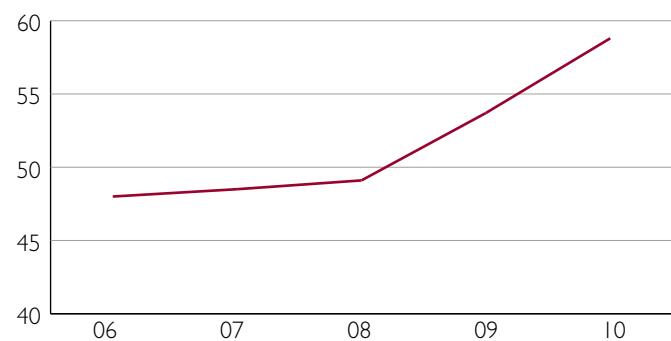
Foreign ownership of the sector is approaching 10% and the fundamentals are in place to attract further foreign interest in the sector. The investability of the sector is increasing as a result of new listings and acquisitions by existing listed funds which has led to an increase in the number of companies valued in excess of R10 billion, coupled with improved liquidity. In addition, a uniform and simplified

## Stay unit nights and total room revenue 2006 – 2015



Source: PriceWaterhouseCoopers LLP, Wilkofsky Groen and Associates

## Number of hotel rooms (Thousands)



Source: PriceWaterhouseCoopers LLP, Wilkofsky Groen and Associates

## Business environment and impact continued

REIT structure, a rising number of internally managed funds, and continued uncertainty in global markets should support increased foreign interest.

At year-end the listed property sector was trading at a historic yield of 7,9%. This translates into a forward yield of approximately 8,5%, assuming consensus growth forecasts of around 7,0% per annum which compares favourably to money market funds of approximately 5,5% and long-term bond yields of around 8,3%. Besides a higher income yield, investors stand to benefit from long-term growth in income, which is not the case for investors in cash or fixed income securities. In addition, the high income yield on property when compared with the broader equity market adds to the defensive qualities of the sector. Assuming no major yield shifts, the sector could deliver total annualised returns of 12% to 15% over

the next few years. This, coupled with positive structural changes, will make the sector more investor friendly and should support investor interest.

### Managing risks within the business environment

In analysing its top strategic risks, the Fund has taken cognisance that it does not operate in isolation to the business environment which has a very real impact on its performance. However, mitigation measures are vital to the long-term sustainability of the Fund and, as such, have been identified and implemented for all the key risks, be they systemic or specific to the organisation.

Linked unit price relative to listed property index (J253)



Combined linked unit price versus JSE travel and leisure sector



| Category                     | Risk  | Mitigation  | Status |
|------------------------------|---|---|--------|
| Fund                         | Tenant default  | Due diligence; Regular monitoring and engagement              | ●      |
|                              | Damage to property  | Regular monitoring; Insurance cover                           | ●      |
|                              | Security of municipal services  | Back up of utilities; Engagement with municipality            | ●      |
|                              | Cost escalations  |   |        |
|                              | • Utilities   | Measures to reduce consumption                                | ●      |
|                              | • Labour  | Working with labour consultants                               | ●      |
|                              | • Consumables   | Procurement policies and procedures                           | ●      |
|                              | Economic environment  | Diversified portfolio; Asset selection                        | ●      |
|                              | Capital structure   | Ongoing monitoring  | ●      |
|                              | Refinancing and cost of borrowing                                       | Engagement with banks<br>Spreading maturity of loans          | ●      |
|                              | BEE compliance  | Implementation of initiatives; Continuous monitoring          | ●      |
| Hotel and Leisure            | Information technology and data integrity                               | Policies and procedures implemented                           | ●      |
|                              | Fraud   | Stringently implemented policies and procedures               | ●      |
|                              | Choice of manager/operator  | Due diligence<br>Regular monitoring and engagement            | ●      |
|                              | Access to skills  | Ongoing investment in training and development initiatives    | ●      |
|                              | Fire life safety  | Preventative maintenance to comply with legislative framework | ●      |
|                              | Information technology and data integrity                               | Integrated system throughout Fund<br>Quarterly audits         | ●      |
| General business performance | Strategic sales and marketing initiatives<br>Diversified source markets | ●   |        |

**Legend:**

● High risk    ● Moderate risk    ● Low risk

# Executive review

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**Crowne Plaza Johannesburg –  
The Rosebank.**

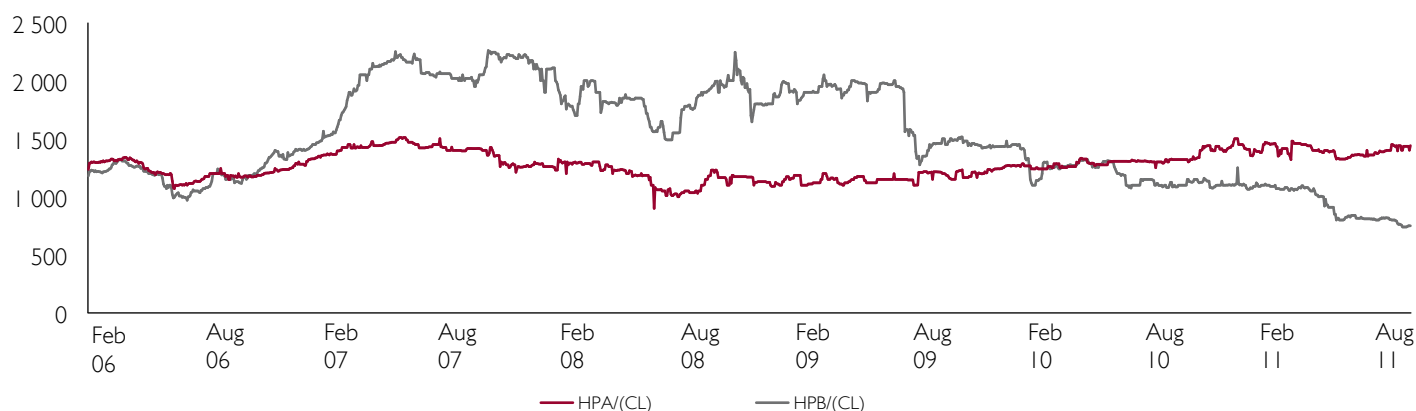
Completely refurbished in 2009, is a modern and stylish Johannesburg Hotel that is ideally located for business and leisure travel. The establishment is only 30 minutes drive from OR Tambo International Airport and a short drive from the Johannesburg and Sandton Business Districts.

[www.therosebank.co.za](http://www.therosebank.co.za)



## Executive review continued

Unit price performance (cents)



Source: I-Net Bridge

### Salient features

- While the South African hotel industry benefited from higher demand during the first ten days of the financial year at the end of the 2010 FIFA World Cup™, the remainder of the year was characterised by difficult trading conditions.
- The pressure currently experienced by hotel owners across the country is mainly as a result of lower demand for accommodation as a consequence of generally subdued domestic and international economic conditions, exacerbated by an increase in room stock developed in the run up to the World Cup. The oversupply of room stock has resulted in aggressive price competition among hotel owners to secure business.
- According to STR Global, the industry reported a drop in occupancy of 6,6% to 53,9% and a decrease in average room rates of 3,4% to R866 for the 12 months to June 2011. The Fund's trading figures for that portion of its portfolio which is subject to variable rental income (i.e dependent on operational earnings) reflected a similar trend with a decline in occupancy of 2,6% to 51,4% and a drop in ARR of 3,8% to R913.
- Coupled with the subdued trading conditions, hotel owners are being forced to absorb increases in overhead costs which are currently significantly ahead of inflation. In particular, escalations in administered prices such as electricity, water and municipal rates have had a marked effect on earnings. In contrast to commercial property-owning entities that are able to pass these additional costs on to tenants, the heavily competitive trading environment precludes hotels from increasing room rates to offset cost increases. As a result, the Fund has experienced a direct reduction in its variable rentals.
- Transfer of the Arabella Portfolio, consisting of the Westin Cape Town (Westin) adjacent to the Cape Town International Convention Centre and the Arabella Hotel and Spa (AHS) in Kleinmond close to Hermanus, became effective on 13 May 2011. The total purchase consideration of R756 million was funded



from the proceeds of the R490 million rights offer and new debt facilities with Nedbank.

- The distribution per combined linked unit declined by 11,4% compared to the previous financial year. The A-linked units' distribution of 122,11 cents grew by 5%, in line with the Fund's distribution structure, resulting in the distribution of the B-linked unit decreasing by 33,1% to 58,90 cents.

The performance of the Fund, although below the expectations set at the start of the year was pleasing in the context of the adverse operating environment, which highlighted the merits of Hospitality's business model as well as its diversified property portfolio.

## Fund overview

As the only specialised listed property fund investing solely in the Hospitality and Leisure sectors, Hospitality offers investors exposure to the growth potential of both the hospitality and property industries.

The Fund's diversified portfolio comprises investments in 26 hotel and resort properties throughout South Africa. As at 30 June 2011 the book value of the portfolio was R3,9 billion.

Hospitality is the largest multi-branded hotel owner in South Africa. It has a number of blue-chip local and international brands from major groups, which include: Intercontinental Hotel Group (IHG), Starwood Hotels and Resorts, The Rezidor Hotel Group, Protea Hotel Group, Three Cities Hotel Group and City Lodge Hotels.

### *Linked units*

Hospitality has an equal number of A- and B-linked units in issue which are listed on the JSE Limited (JSE) under the 'Financials – Real Estate' sector:

- A-linked units, trading under the share code HPA, have a preferential claim to distributions, and
- B-linked units, trading under the share code HPB, receive the balance of the distribution.

The B-linked units carry a higher inherent risk as they are not only geared to the trading conditions but further leveraged by the preferential claims that the A-linked units enjoy. This provides excess returns during periods of strong distribution growth but they are similarly negatively impacted when operations are under pressure.

### *Capital structure*

The fund is in the process of reviewing its capital structure to ensure all classes of unit holders are equitably compensated.

The board is cognisant of the volatility in the earnings attributable to B-linked unit holders, particularly in times of earnings instability as has been experienced in the past few years. In order to address this, various options have been considered with a view to attempting to ameliorate the volatility but at the same time ensuring that the treatment of all unitholders remains equitable and that their basic rights and entitlements are not impaired.

The board is of the view that there would be merit in decoupling the issue of A- and the issue of B-linked units so that they need not be issued in the fixed ratio of 1:1. This would afford the company greater flexibility in meeting its capital requirements through the issue of A- and/or B-linked units in ratios that adjust from time to time depending on prevailing conditions. This flexibility would be subject to the caveat that at no time may the company have more A-linked units in issue than B-linked units, so that the proposed decoupling would not impact on the distribution entitlements of A-linked unitholders. Any issue of fewer A-linked units than B-linked units would affect the distribution entitlements of B-linked unitholders, as dealt with further below.

A-linked unitholders have a capped but preferential entitlement to distributions. B-linked unitholders receive the balance of distributions once the entitlements of the A-linked unitholders have been met. Accordingly, the preferential distribution entitlements of A-linked unitholders are affected only by the issue of additional A-linked units and are not affected by the issue of additional B-linked units. Decoupling the issue of A- and B-linked units so that they need not be issued in the fixed ratio of 1:1 is neutral to the distribution entitlements of A-linked units, provided that the company is prohibited from ever issuing more A-linked units than B-linked units.

In effect, the B-linked unitholders receive the residual distributable profit after the cash flow entitlements of both bank lenders to the company and the A-linked unitholders have been fulfilled. In this sense, the distribution entitlements of the B-linked unitholders are subject to the gearing effect of both bank lenders and A-linked unitholders. The board and management of the company have flexibility to determine the extent and terms of the company's bank debt, and to make adjustments from time to time to take account of prevailing conditions. The decoupling of the A- and B-linked unit issuances would serve to afford the board and management of the company a similar flexibility regarding the extent to which the issue of A-linked units has a gearing impact on the distribution entitlements of B-linked unitholders. The gearing impact of the A-linked units would be reduced to the extent that more B-linked units are issued than A-linked units. The impact on B-linked unitholders may be considered beneficial in that a reduction in the gearing impact of the A-linked units would proportionately reduce volatility of distributions on the B-linked units.

The board is however also cognisant of the fact that the timing in implementation of such a change is critical and that execution at the bottom of an earnings cycle and subsequent issuance of proportionately more B units than A units would unfairly prejudice existing B-linked unitholders during an earnings recovery phase. A more appropriate timing would be to implement in a more stable earnings cycle. Given the nature of financial markets and economies, an ideal timing may not be achievable, but as and when the board believes it to be appropriate, approval will be sought from unitholders to effect the proposed changes.



### *Management*

Hospitality's management company (Manco) was internalised with effect from 1 December 2009. In addition to enhancing the Fund's yield as a result of the lower costs associated with the new structure, it also resulted in an alignment of interests of key management with that of linked unitholders and eliminated perceived conflicts of interest. The company has a dedicated executive management team with a combined experience of more than 70 years in both the hospitality and property sectors.

### *Properties and leases*

Hospitality's properties are categorised into three lease type segments namely: fixed lease properties, fixed and variable (F&V) lease properties and variable lease properties.

#### *Fixed lease properties*

The fixed leases apply to four properties and recorded gross rental income of R122,6 million, accounting for 44% of total rental income for the year.

These properties are: Birchwood Hotel & OR Tambo Conference Centre, Champagne Sports Resort, Kopanong Hotel and Conference Centre and Premier Hotel King David. Rentals under fixed lease agreements are determined by commercial lease terms with inflation-linked escalations. The lease on the Birchwood Hotel & OR Tambo Conference Centre, which was due to expire in three years, was renegotiated on 1 July 2011 and extended for a ten-year period.

#### *F&V lease properties*

F&V lease agreements comprise some 50% fixed lease rental, with the balance being variable rental equivalent to between 90% to 98% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after paying the fixed portion of the lease. The F&V lease properties are: Westin Cape Town, Arabella Hotel & Spa, Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Mount Grace Country House & Spa, Protea Hotel Victoria Junction, Protea Hotel The Winkler, Protea Hotel Hazyview, Protea Hotel Richards Bay, Protea Hotel Hluhluwe & Safaris, Protea Hotel Imperial, Inn on the Square, Protea Hotel The Richards, Protea Hotel Edward, Protea Hotel Marine and The Bayshore Inn.

The F&V lease category now includes the previous C-Corp leases. The company's sixteen F&V lease properties contributed 50% of total rental income for the period with gross rental income of R139,3 million.

#### *Variable lease properties*

The variable lease category consists of interests in five Courtyard hotels situated in Arcadia, Cape Town, Eastgate, Rosebank and Sandton as well as the Radisson Blu Waterfront in Cape Town.

Income derived from these properties comprises EBITDA from the hotel operations.

For the reporting period, these properties contributed 6% of total rental income with gross rental income of R15,1 million.

## Results

The distribution per combined linked unit declined by 11,4% compared to the previous financial year as trading conditions in the hotel industry remained challenging throughout the year. In addition to muted demand, there was a significant oversupply of room stock as the number of rooms available on a national basis increased by almost 20% in the two years prior to the World Cup. This has led to widespread discounting of rates in an attempt to support occupancies.

Pressure from increasing overhead costs, which are appreciably higher than inflation, further eroded margins. In particular, escalations in administered prices such as electricity, water and municipal rates have had a marked effect on earnings. In contrast to commercial property owning entities that are able to pass these additional costs on to tenants, the heavily competitive trading environment precludes hotels from increasing room rates to absorb cost increases. As a result, the Fund has experienced a direct reduction in its variable rentals.

The A-linked units distribution of 122,11 cents (2010: 116,30 cents) grew by 5%, in line with the Fund's distribution structure, resulting in the distribution on the B-linked unit decreasing by 33,1% to 58,90 cents (2010: 87,98 cents).

Rental income grew by 4,2% mainly as a result of the acquisition of the Arabella Portfolio. Whilst transfer of the Arabella Portfolio was only effective from 13 May 2011, an agreement had been reached with the seller to pay R17,5 million as compensation for the delay in transferring the property to offset the differential between the rights offer proceeds that were invested at call rates and the anticipated return from the property. The standing portfolio, however, reflected a year-on-year decline in rental income primarily as a consequence of the World Cup revenues which had contributed more in the prior year.

Fund expenses declined by some R8,5 million. This was due to savings achieved through the internalisation of the Fund's Manco in December 2009 as well as the impact of the bad debt write-off incurred in 2010 following the Queensgate Group's default on the leases at Radisson Blu Waterfront and the Park Inn Greenmarket Square (Inn on the Square).

Higher debt levels as a result of the Arabella Portfolio acquisition, capital expenditure on various refurbishments and the cost of the Manco acquisition led to an increase of R4,2 million in finance costs. This was however, partially offset by interest earned on the proceeds of the rights issue which was concluded during November 2010.

Approximately 85% (2010: 79%) of the Fund's revenue during the year was derived from fixed rentals with CPI-linked escalations and the remaining 15% (2010: 21%) comprised variable rentals which are linked to underlying hotel operational performance. This year-

on-year change was an unintended consequence of current hotel trading conditions.

## Rights issue

The Fund successfully concluded a rights offer on 15 November 2010. A total consideration of R490 million was raised through the issue of 21 030 043 A-linked units at R12,80 each and 21 030 043 B-linked units at R10,50 each. These funds were allocated to the partial settlement of the purchase consideration for the Arabella Portfolio.

An amount of R17,5 million of the rights offer proceeds was allocated as a recoupment of debenture interest in respect of the period 1 July 2010 to 14 November 2010 as the rights issue units received the full distribution for the six months to 31 December 2010, despite being in issue for only six weeks. This recoupment was necessary in order to ensure that the distributions of pre-rights issue unitholders were not unjustifiably compromised.

## Property portfolio

The Fund's portfolio comprises interests in 26 hotel and resort properties in South Africa with a book value of R3,9 billion as at 30 June 2011.

### *Property valuation and net asset value*

As at 30 June 2011 Hospitality's property portfolio was independently valued at R3,9 billion (2010: R3,3 billion). Acquisitions amounting to R752,7 million were concluded during the year and were revalued by an additional R170 million on transfer. The book value of the standing portfolio declined by R415,7 million on revaluation by the external valuer at year-end mainly due to lower projected rental incomes as a consequence of the constrained trading conditions. Development and capital expenditure of R109,0 million and R21,8 million, respectively, were invested during the review period.

The net asset value per linked unit as at 30 June 2011 was R12,71 (excluding deferred taxation), reflecting a decrease of 17,2% from 2010 primarily as a consequence of a general write down in valuations of the standing portfolio. The weighted average lease expiry period is 10,9 years.

### *Acquisitions and disposals*

Transfer of the immovable properties and hotel businesses referred to as the 'Arabella Portfolio' from Arabella South Africa Holdings (Pty) Limited and its subsidiaries to HPF Properties (Pty) Limited (HPF Properties) was effected on 13 May 2011. The acquisition comprises: the Westin Cape Town (Westin) adjacent to the Cape Town International Convention Centre and the Arabella Hotel and Spa (AHS) in Kleinmond close to Hermanus as well as 437 hectares of undeveloped land adjoining AHS (Phase 2 land). The total purchase consideration amounted to R756 million which includes working capital liabilities of approximately R26 million for the hotels

## Executive review continued

which will be assumed by HPF Properties. The acquisition was funded from the proceeds of the R490 million rights offer and new debt facilities with Nedbank.

The Fund has treated the Phase 2 land (subject to obtaining the development rights which have been applied for) as 'properties held for trading'. Once the development rights have been secured, the Fund will market and sell this development land with a view to realising a profit which will be classified as distributable income.

### Rationale for the transaction

- The Westin is a landmark five-star hotel in Cape Town, ideally located adjacent to the Cape Town International Convention Centre, with a long-term lease and other contracts with Cape Town International Convention Centre Company (Pty) Limited.
- AHS is a five-star luxury hotel and award-winning golf course, located near Hermanus in the Western Cape, that has the potential to add to growth in distributions over time, including through the development of the undeveloped land which formed part of the transaction.
- It is expected that the acquisition of the Arabella Portfolio will provide an additional underpin to the preferential distribution rights of Hospitality A-linked unitholders and contribute to growth in distributions for Hospitality B-linked unitholders.

## Refurbishment, upgrades and expansions

The Fund continued to refurbish certain properties to strategically position them for sustainable long-term growth. During the year a total of R109 million was invested in the following projects:

- The second phase of the refurbishment of the Protea Hotel Marine (Port Elizabeth) was successfully completed at a total cost of R31 million. The project included refurbishing the 70 standard bedrooms, public areas and the reception area. The market has responded positively to the refurbishment which is expected to contribute to the property's competitive positioning.
- The recently acquired Protea Hotel Edward (Durban) has been refurbished at a cost of R12 million and was relaunched during the year to coincide with the hotel's centenary celebration. There has been an overwhelmingly positive response to this upgrade from the trade.
- The conversion of underutilised areas to additional conference facilities at the Holiday Inn Sandton – Rivonia Road, at a total cost of R8 million was introduced to the market in June 2011 and has been positively received. These facilities have extended the hotel's offering to the conferencing market.
- Construction of the new conference centre and 40 additional rooms at Champagne Sports Resort (Drakensberg) at a cost of R28 million was also completed. As this property is under fixed lease, the capital cost has been rentalised.
- Refurbishment of the Protea Hotel Victoria Junction (Cape Town) at an anticipated cost of R42 million, and the Inn on the Square

(Greenmarket Square – Cape Town) at an expected cost of R34 million are progressing well and these hotels are expected to re-open during September 2011.

- The refurbishment of the Protea Hotel Hazyview is also close to completion at a budgeted cost of R9,5 million. The project entails an upgrade of the rooms and refurbishment of the bathrooms.

On completion of these projects, all F&V lease properties will have been refurbished. This will ensure that the quality of the Fund's properties is of the highest standard and will provide a solid platform to benefit from improved trading once the market recovers.

## Portfolio and asset management

Hospitality's portfolio of 26 hotel and leisure properties is diversified in terms of geographic location, star grading, fixed and variable income, lease expiry profile, market mix and brands. However, it is the Fund's portfolio and asset management expertise which ensures its long-term ability to deliver on the return potential of these assets while mitigating the inherent risks.

Selection of the tenants, management company and the hotel brand, which are best suited to a specific property, is crucial to effectively managing the operational risks and maximising the performance of each hotel. Conclusion of leases with tenants is preceded by a formal process to establish the best fit between the hotel property tenant and brand which, in turn, positions the Fund to generate sustainable returns for unitholders. Proposals are obtained from a number of potential tenants that are evaluated by the investment committee which makes a recommendation to the Board for final approval.

Tenant default is a potential financial risk to the Fund, but can be effectively mitigated by monitoring their underlying trading conditions with regular and formal engagement. Ingrained in Hospitality's operating model is its philosophy of building long-term relationships with tenants to develop an intimate understanding of their businesses and performance. The Fund engages monthly with its tenants, through meetings and formal reports. In addition, extensive peer group benchmarking, statistical analyses and reviews of economic trends are conducted by the Fund and the findings are shared with tenants to optimise the performance of the properties.

Among the challenges in the current operating environment are the substantial increases in overhead costs, particularly administered prices such as power, water and municipal rates. As these costs are not under the control of the Fund, the focus is on proactively managing consumption through energy and water-saving initiatives [see pages 48 and 49 for more details]. Hospitality is also investigating possible Eskom subsidies towards the capital costs of implementing power-saving measures. After substantial increases in municipal rates were imposed on several properties, particularly in Gauteng, the Fund lodged objections and is engaging with the municipality to mitigate these increases.



*Holiday Inn Sandton – Rivonia Road is conveniently located in Sandton Central, the heart of Gauteng's corporate, financial and shopping Mecca. 2011 saw the opening of the new Conference centre located adjacent to the Skye Bar on the 9th floor with panoramic views over the Sandton skyline.*  
[www.hisandton.co.za](http://www.hisandton.co.za)



## Executive review continued

The management of labour costs, especially against the backdrop of wage settlements, generally exceeding inflation, is an ongoing challenge.

Centralised procurement platforms have been formalised at most of the hotels to negotiate bulk supply arrangements with major suppliers to minimise the cost of consumables.

### 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 diversifying the portfolio in South Africa by geographic location, patronage and star grading but with a particular focus on large, well-located properties in major metropolitan areas with a diverse patronage base.

Despite the challenging domestic operating environment, Hospitality's investment focus will remain in South Africa for the foreseeable future. Although offshore markets present some good potential long-term investment opportunities, there is sufficient scope in the domestic market for the Fund to meet its current objective of delivering sustained distribution growth. From an earnings perspective, South Africa still offers higher yields with a lower risk than most offshore markets. Any decision to expand internationally would require a highly compelling investment proposition.

Hospitality management is of the view that a number of the hotels which were developed in anticipation of heightened demand during the World Cup will not trade profitably, even under conditions of normal economic growth. As it stands, a number are now trading in a distressed state with high gearing that cannot be serviced from current earnings. During the year, Hospitality evaluated a number of proposals to acquire good quality assets, several of them being marketed at significant discounts to intrinsic value. However, given the current dynamics of the hotel and leisure sector, these would most likely have been earnings dilutive in the short term, even though the longer-term prospects were attractive. Accordingly, they did not meet the Fund's criteria to sustain earnings and distribution growth.

### Borrowings

The Fund's interest-bearing liabilities increased by R432 million to R1,74 billion during the reporting period. The gearing ratio increased to 44% of total property asset value (2010: 39,4%) at an average cost of borrowings for the Fund of 8,91% (2010: 10,16%). For the 2011 financial year, 60% of the Fund's borrowings were hedged through derivative swaps. Hospitality had total facilities of R1,9 billion with financial institutions as at 30 June 2011, of which R1,7 billion was utilised at year-end.

The Fund increased its borrowings to fund the acquisition of the Arabella Portfolio and a number of hotel refurbishments. The

projected returns from these projects have been evaluated and are sufficient to service the additional debt liabilities.

Hospitality continuously monitors the fixed interest market in order to effectively manage the interest rate exposure of its debt financing. Approximately R1,4 billion of the Fund's current debt facility with Absa expires in February 2012. The majority of this facility was secured on listing in 2006 at a rate of 3 month JIBAR + 130 bps. The Fund is currently in discussion with Absa and other financial institutions regarding the renewal of this facility and is reviewing the proposals received. Given the substantial increase in banks' lending margins in recent years, this facility is likely to be renewed at a higher margin. The R606,5 million Nedbank debt facility expires in tranches of R176,3 million in July 2015 and R430,2 million in May 2016.

The Fund is also reviewing its debt structures and is presently engaging its bankers with a view to achieving a broader spread of loan maturities on its borrowings to diversify the risk of being forced to renew at higher margins and to create greater flexibility to redeem loans in the event of the disposal of any properties.

Hospitality has entered into swaps amounting to R1,041 billion. It is cognisant of current trends in interest rate markets which it continually monitors in order to increase its swap exposure if necessary. In compliance with International Financial Reporting Standards (IFRS) interest swap agreements are valued on a mark-to-market basis. Accordingly, a fair value adjustment of R10,5 million has been charged to profit and loss. This fair value adjustment has no effect on the distribution to linked unitholders but adversely affects both the earnings and headline earnings.

The current swap profile is detailed below:

|                | All-in<br>fixed rate | Commencement<br>date | Maturity<br>date |
|----------------|----------------------|----------------------|------------------|
| R347 million   | 8,72%                | June 2010            | June 2013        |
| R347 million   | 9,05%                | June 2010            | June 2014        |
| R347 million   | 9,28%                | June 2010            | June 2015        |
| R1 041 million |                      |                      |                  |

### Liquidity

During the year some 21,1% of the A-linked units and 36,1% of the B-linked units were traded on the JSE.

### Manco internalisation

The internalisation of the Manco has resulted in an effective saving of some R24,3 million for the 2011 reporting period. The initial purchase price of R123 million was settled in December 2009 and the remaining balance will be calculated at 30 June 2012, dependent on certain performance criteria and subject to a maximum value of R180 million escalating annually at CPI from the effective date. Current

forecasts indicate that a top-up payment will not be payable to the vendors of Manco in 2012.

## C-Corp restructure

The Fund is currently reviewing the terms of its original leases entered into with Majormatic 194 (Pty) Limited (C-Corp) with a view to aligning these with the F&V leases that have been implemented more recently. The major differences from the original C-Corp leases include:

- rentals increase to 98% of EBITDA;
- a cancellation option in favour of the Fund in the event of a re-branding or disposal of the property; and
- regular resets in the fixed rental component of the leases to ensure that these remain market related.

These changes, once finalised, will be effective retrospectively from 1 July 2011, and should ensure a more sustainable and equitable lease structure going forward, for all parties.

## Prospects

The hotel industry is in an extremely weak trading cycle which has been exacerbated by oversupply, leading to a set-back in Hospitality's earnings growth. The continuation of these trading conditions, together with the anticipated higher refinancing costs resulting from the renewal of its debt facilities, as well as higher than inflationary increases in municipal rates and electricity costs, will continue to impair earnings over the next 12 months.

Distributions in the short term will remain under pressure, but the Fund is well-positioned in the longer term, with its high quality portfolio of assets which has been further enhanced with the acquisition of the Arabella Portfolio. The Westin in particular has

a robust business model, which should provide strong earnings support, while the AHS provides the Fund with a future opportunity to realise profits from the sale of the land that is categorised as 'properties held for trading'.

While distributable earnings will remain under pressure for the 2012 financial year, management is focused on driving operational performance to enhance unitholder returns; restructuring the Fund's debt facilities to mitigate both concentration and expiry risk and reviewing the Fund's capital structure with a view to reducing the B-linked unit volatility.

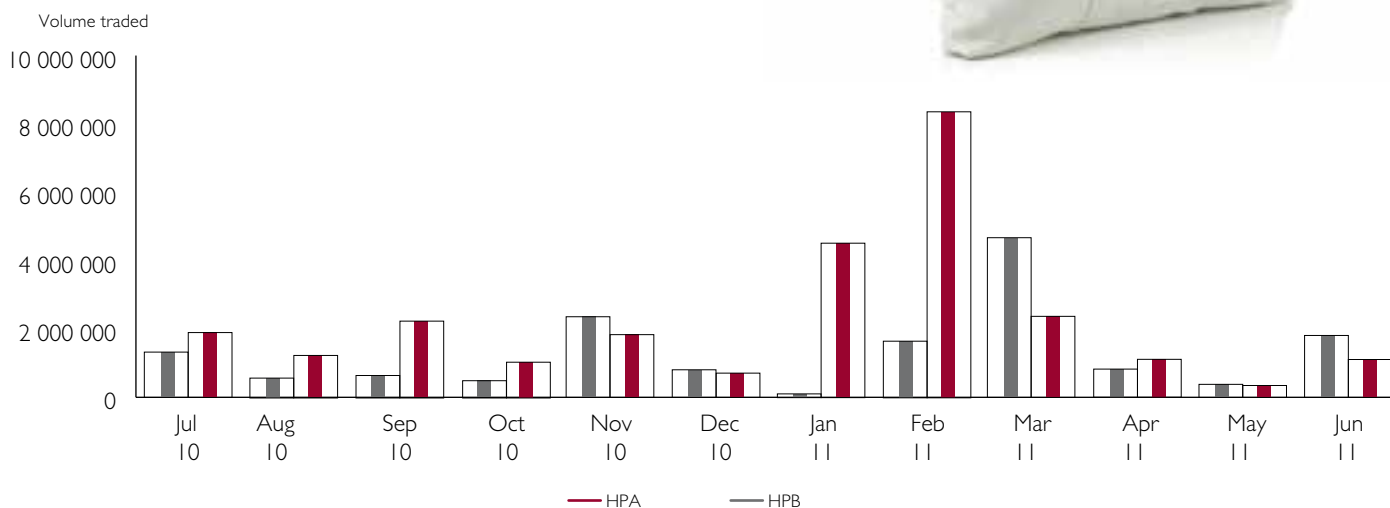
## Appreciation

Management wishes to express its sincere appreciation to the board of directors for their continued commitment and strategic guidance during the year. The employees of Hospitality Property Fund are also thanked for their loyalty, efforts and contribution to the performance in 2011. The completion of the Arabella Portfolio acquisition was a notable milestone which was only achieved through the combined extensive efforts of the team.

The role played by the tenants of our properties cannot be underestimated and we thank them for the positive impact that they have had during the year together with the employees of the hotel management companies, whose support is critical to the Fund's success.



### HPA and HPB



# Property portfolio

30 June 2011

|  | Property location        | Star grading | Number of rooms | Book value 30 June 2010 R | Capitalised cost for the year R | Fair value adjustment on acquisition |
|--|--------------------------|--------------|-----------------|---------------------------|---------------------------------|--------------------------------------|
| <b>Fixed lease</b>                       |                          |              |                 |                           |                                 |                                      |
| Birchwood Hotel and Conference Centre    | Boksburg                 | 3            | 450             | 774 000 000               | –                               |                                      |
| Champagne Sports Resort                  | Central Berg             | 4            | 112             | 255 000 000               | 20 993 080                      |                                      |
| Kopanong Hotel and Conference Centre **  | Benoni                   | 4            | 252             | 129 000 000               | 22 697                          |                                      |
| Premier Hotel King David                 | East London              | 3            | 80              | 52 000 000                | 16 975                          |                                      |
| <b>Total fixed lease</b>                 |                          |              |                 | <b>1 210 000 000</b>      | <b>21 032 752</b>               | <b>–</b>                             |
| <b>Variable lease</b>                    |                          |              |                 |                           |                                 |                                      |
| Radisson Blu Waterfront **               | Cape Town                | 5            | 177             | 177 000 000               | 5 978 855                       |                                      |
| Courtyard Arcadia **                     | Pretoria                 | 4            | 69              | 42 000 000                | 961 555                         |                                      |
| Courtyard Cape Town **                   | Cape Town                | 4            | 70              | 7 100 000                 | –                               |                                      |
| Courtyard Eastgate **                    | Bruma Lake, Johannesburg | 4            | 69              | 25 500 000                | –                               |                                      |
| Courtyard Rosebank **                    | Rosebank                 | 4            | 83              | 32 800 000                | –                               |                                      |
| Courtyard Sandton **                     | Sandton                  | 4            | 69              | 20 900 000                | –                               |                                      |
| <b>Total variable lease</b>              |                          |              |                 | <b>305 300 000</b>        | <b>6 940 410</b>                | <b>–</b>                             |
| <b>F&amp;V lease</b>                     |                          |              |                 |                           |                                 |                                      |
| Arabella Hotel & Spa                     | Kleinmond                | 5            | 145             |                           | 87 865 662                      | 16 597 958                           |
| Crowne Plaza Johannesburg – The Rosebank | Rosebank                 | 4            | 318             | 400 294 000               | 1 480 162                       |                                      |
| Holiday Inn Sandton – Rivonia Road       | Sandton                  | 4            | 301             | 400 230 000               | 8 501 020                       |                                      |
| Inn on the Square                        | Cape Town                | 3            | 165             | 110 826 000               | 16 252 392                      |                                      |
| Mount Grace Country House & Spa          | Magaliesburg             | 5            | 121             | 239 000 000               | 11 340 160                      |                                      |
| Paulaner Brauhaus                        | Cape Town                |              |                 |                           | 719 860                         | (713 364)                            |
| Protea Hotel Edward                      | Durban                   | 4            | 101             | 110 987 000               | 18 071 929                      |                                      |
| Protea Hotel Hazyview                    | Hazyview                 | 3            | 87              | 41 000 000                | 7 365 390                       |                                      |
| Protea Hotel Hluhluwe & Safaris          | Hluhluwe                 | 3            | 75              | 35 333 000                | 566 884                         |                                      |
| Protea Hotel Imperial                    | Pietermaritzburg         | 3            | 70              | 50 000 000                | (442 504)                       |                                      |
| Protea Hotel Marine                      | Port Elizabeth           | 4            | 114             | 99 000 000                | 24 920 812                      |                                      |
| Protea Hotel Richards Bay                | Richards Bay             | 3            | 66              | 30 000 000                | 707 842                         |                                      |
| Protea Hotel – The Richards              | Richards Bay             | 4            | 135             | 50 900 000                | 257 933                         |                                      |
| Protea Hotel – The Winkler               | White River              | 3            | 87              | 38 000 000                | 1 804 282                       |                                      |
| Protea Hotel Victoria Junction **        | Cape Town                | 4            | 172             | 164 000 000               | 25 643 362                      |                                      |
| The Bayshore Inn                         | Richards Bay             | 2            | 102             | 33 000 000                | 199 806                         |                                      |
| Westin Cape Town                         | Cape Town                | 5            | 483             |                           | 650 293 387                     | 154 104 639                          |
| <b>Total F&amp;V lease</b>               |                          |              |                 | <b>1 802 570 000</b>      | <b>855 548 379</b>              | <b>169 989 233</b>                   |
| <b>Grand total</b>                       |                          |              |                 | <b>3 317 870 000</b>      | <b>883 521 541</b>              | <b>169 989 233</b>                   |

\*\* For details on Hospitality Property Fund ownership refer to page 103

| Revaluation surplus/ (deficit) R | Valuation 30 June 2011 R | Discount rate % | Terminal cap rate % | Date of acquisition | Acquisition cost R   | Capitalised cost post-acquisition R | Total cost R         | Surplus/ (Deficit) on valuation to cost R | Percentage growth on cost |
|----------------------------------|--------------------------|-----------------|---------------------|---------------------|----------------------|-------------------------------------|----------------------|---|---------------------------|
| (73 000 000)                     | 701 000 000              | 14,5            | 10,5                | Feb 06              | 400 859 436          |                                     | 400 859 436          | 300 140 564                               | 74,9                      |
| (6 993 080)                      | 269 000 000              | 14,5            | 10,5                | Feb 06              | 141 506 000          | 26 792 232                          | 168 298 232          | 100 701 768                               | 59,8                      |
| (28 022 697)                     | 101 000 000              | 15,0            | 11,0                | Feb 06              | 78 130 000           | 1 687 540                           | 79 817 540           | 21 182 460                                | 26,5                      |
| (14 016 975)                     | 38 000 000               | 15,5            | 12,5                | Feb 06              | 52 000 000           | 849 866                             | 52 849 866           | (14 849 866)                              | (28,1)                    |
| <b>(122 032 752)</b>             | <b>1 109 000 000</b>     |                 |                     |                     | <b>672 495 436</b>   | <b>29 329 638</b>                   | <b>701 825 074</b>   | <b>407 174 926</b>                        | <b>58,0</b>               |
| (31 978 855)                     | 151 000 000              | 14,0            | 9,5                 | Feb 06              | 133 416 525          | 10 813 780                          | 144 230 305          | 6 769 695                                 | 4,7                       |
| (8 961 555)                      | 34 000 000               | 14,5            | 10,5                | Feb 06              | 19 300 000           | 961 555                             | 20 261 555           | 13 738 445                                | 67,8                      |
| (5 100 000)                      | 2 000 000                | 15,0            |                     | Feb 06              | 7 125 000            |                                     | 7 125 000            | (5 125 000)                               | (71,9)                    |
| (5 000 000)                      | 20 500 000               | 15,0            | 11,0                | Feb 06              | 9 400 000            |                                     | 9 400 000            | 11 100 000                                | 118,1                     |
| (4 800 000)                      | 28 000 000               | 14,5            | 10,5                | Feb 06              | 12 180 130           |                                     | 12 180 130           | 15 819 870                                | 129,9                     |
| (3 600 000)                      | 17 300 000               | 14,5            | 10,5                | Feb 06              | 8 662 610            |                                     | 8 662 610            | 8 637 390                                 | 99,7                      |
| <b>(59 440 410)</b>              | <b>252 800 000</b>       |                 |                     |                     | <b>190 084 265</b>   | <b>11 775 335</b>                   | <b>201 859 600</b>   | <b>50 940 400</b>                         | <b>25,2</b>               |
| (4 463 620)                      | 100 000 000              | 14,5            | 10,5                | May 11              | 83 368 443           | 4 497 219                           | 87 865 662           | 12 134 338                                | 13,8                      |
| (50 774 162)                     | 351 000 000              | 14,5            | 9,5                 | Feb 06              | 70 000 000           | 325 577 177                         | 395 577 177          | (44 577 177)                              | (11,3)                    |
| (59 731 020)                     | 349 000 000              | 14,5            | 9,5                 | Sep 08              | 409 247 981          | 14 807 901                          | 424 055 882          | (75 055 882)                              | (17,7)                    |
| (12 078 392)                     | 115 000 000              | 15,0            | 11,5                | Feb 06              | 63 361 611           | 24 052 392                          | 87 414 003           | 27 585 997                                | 31,6                      |
| (12 340 160)                     | 238 000 000              | 14,5            | 10,0                | Feb 06              | 131 562 500          | 157 208 756                         | 288 771 256          | (50 771 256)                              | (17,6)                    |
| (6 496)                          | –                        |                 |                     | May 11              | 713 364              | 6 496                               | 719 860              | (719 860)                                 | (100,0)                   |
| (29 058 929)                     | 100 000 000              | 15,0            | 10,75               | Jun 10              | 110 400 000          | 18 204 995                          | 128 604 995          | (28 604 995)                              | (22,2)                    |
| (4 365 390)                      | 44 000 000               | 14,0            | 11,0                | Apr 07              | 41 508 574           | 10 875 550                          | 52 384 124           | (8 384 124)                               | (16,0)                    |
| (11 969 884)                     | 23 930 000               | 15,0            | 11,5                | Jul 07              | 28 219 247           | 4 975 778                           | 33 195 025           | (9 265 025)                               | (27,9)                    |
| (12 557 496)                     | 37 000 000               | 15,0            | 11,5                | Mar 07              | 24 456 607           | 20 854 158                          | 45 310 765           | (8 310 765)                               | (18,3)                    |
| (33 920 812)                     | 90 000 000               | 15,0            | 10,75               | Feb 06              | 73 000 000           | 42 220 749                          | 115 220 749          | (25 220 749)                              | (21,9)                    |
| 1 292 158                        | 32 000 000               | 15,0            | 11,0                | Feb 06              | 23 000 000           | 11 055 513                          | 34 055 513           | (2 055 513)                               | (6,0)                     |
| 1 842 067                        | 53 000 000               | 15,0            | 11,0                | Feb 07              | 63 137 802           | 17 569 975                          | 80 707 777           | (27 707 777)                              | (34,3)                    |
| 4 195 718                        | 44 000 000               | 15,0            | 11,0                | Feb 06              | 10 000 000           | 36 603 480                          | 46 603 480           | (2 603 480)                               | (5,6)                     |
| (5 643 362)                      | 184 000 000              | 15,0            | 10,5                | Feb 07              | 119 655 717          | 19 734 222                          | 139 389 939          | 44 610 061                                | 32,0                      |
| (3 199 806)                      | 30 000 000               | 15,0            | 11,0                | Feb 07              | 12 333 119           | 25 548 828                          | 37 881 947           | (7 881 947)                               | (20,8)                    |
| (1 398 026)                      | 803 000 000              | 14,5            | 9,5                 | May 11              | 648 895 361          | 1 398 026                           | 650 293 387          | 152 706 613                               | 23,5                      |
| <b>(234 177 612)</b>             | <b>2 593 930 000</b>     |                 |                     |                     | <b>1 912 860 326</b> | <b>735 191 215</b>                  | <b>2 648 051 541</b> | <b>(54 121 541)</b>                       | <b>(2,0)</b>              |
| <b>(415 650 774)</b>             | <b>3 955 730 000</b>     |                 |                     |                     | <b>2 775 440 027</b> | <b>776 296 188</b>                  | <b>3 551 736 215</b> | <b>403 993 785</b>                        | <b>11,4</b>               |

# Corporate governance

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*The Westin Cape Town is situated at the entrance to the historic Victoria and Alfred Waterfront. The hotel's fantastic glass façade allows clear views of the breathtaking beauty of Table Mountain, Lion's Head and the entirety of Table Bay. The Westin Cape Town is Africa's leading Meetings and Conferencing Hotel.*

[www.westincape.com](http://www.westincape.com)



# Corporate governance continued



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# Board of directors

## 1. Frank Berkeley (55) – Independent non-executive, Chairman

BComm, BAcc, CA(SA)

Frank is the chairman of the board and the nomination committee. He was appointed to the board in March 2010 and was elected as chairman in May 2010. Frank is the managing executive of Property Finance, Nedbank Corporate. He is a director of Attfund Limited, Acucap and Sycom Property Fund Managers Limited.

## 2. Gerald Nelson (56) – Chief Executive Officer

BSc Building (Wits)

Gerald is the chief executive officer of Hospitality and was appointed to the board prior to the listing of the Fund in 2006. He conceptualised and was actively involved with the set-up of the Fund. Prior to 2006, Gerald was the managing director of Sycom Property Fund Managers Limited and a past chairman of the Association of Property Unit Trusts. He has more than 30 years' experience in activities related to property with specific expertise in development, asset management as well as listed and directly held investment property vehicles, with a specific focus on the hotel and leisure industry for the past six years.

## 3. Andrew Rogers (42) – Deputy Chief Executive Officer

N-Dip – Hotel Management (Cape Town Technikon)

Andrew has more than 20 years' operational hospitality and tourism experience. 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 also been employed by the City Lodge Group and Cullinan Hotel Group. Andrew was appointed deputy chief executive officer of Hospitality in February 2009.

## 4. Ridwaan Asmal (39) – Executive, Financial Director

BComm (Accounting) (Wits)

Ridwaan is the financial director of Hospitality. He has more than 18 years' experience in the South African listed property sector 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. Kamil Abdul-Karrim (52) – Independent non-executive

BCompt, PDM-PPDA (Wits), MBA (Bond University)

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 the managing director of Pam Golding Tourism and Hospitality Consulting (Pty) Limited.

## 6. Youseph Aminzadeh (45) – Non-executive

BA (Webster), MBA (Trinity)

Youseph is the prior deputy chief executive officer and currently a non-executive director of Hospitality. He was appointed to the board prior to the listing of the Fund in 2006. Youseph assisted in the original assembly of the Fund and was the managing director of Horwath Tourism & Leisure Consulting (Pty) Limited. He has authored articles on various aspects of the tourism and hospitality sectors and has served on various industry committees and forums.

## 7. Linda de Beer (42) – Independent non-executive

BAcc, BAcc Hons, Masters Tax, CA(SA)

Linda is an independent financial reporting and corporate governance advisor and part time professor in financial accounting at the University of the Witwatersrand. She serves as the Chairperson of the Consultative Advisory Group (CAG) of the International Auditing and Assurance Standards Board (IAASB) and is an independent director on the boards of Afgri Holdings Limited and Royal Bafokeng Platinum Limited. Her memberships of committees include: the King Committee on Corporate Governance in South Africa, the Issuers' Services Advisory Committee of the JSE Limited and the Committee for Auditing Standards of the Independent Regulatory Board for Auditors in South Africa. Linda was appointed as a director of Hospitality on 17 August 2011.

## 8. Zuko Kubukeli (38) – Independent non-executive

PhD (Human Biology) (UCT), BSc Hons (Medicine) (UCT), BSc (Biochemistry and Microbiology) (UCT)

Zuko was a regional property manager of Atlas Property Services (Pty) Limited, the management company of listed PLS, Atlas Properties Limited, prior to which he was an executive director of Brait Specialised Funds. Zuko is the executive director – strategy and acquisitions, of Pan-African Capital Holdings (Pty) Limited and a principal of two private equity funds, Pan-African Private Equity Fund One and Inspired Evolution Fund. He was appointed to the board of Hospitality in June 2008.

## 9. Brenda Madumise (47) – Independent non-executive

BProc, LLB (Wits), MBA (Bond University), Graduate Diploma in International Trade Law (Wits)

Brenda chairs the BEE and remuneration committees 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, including Randgold and Exploration Company Limited, Transaction Capital and the International Marketing Council of South Africa. She is also the chairperson of the Iziko Museums, the Railway Safety Regulator, CATHSSETA and Vice President of Business Unity South Africa (BUSA).

## 10. William Midgley (53) – Non-executive

BA LLB (UCT) Admitted attorney, notary and conveyancer

William is a director at DLA Cliffe Dekker Hofmeyr; Attorneys (CDH), specialising in commercial, commercial property and JSE-related legal work. He was a director at Edward Nathan from 1991 to 2006 and advised with the listing of Hospitality in 2006. He joined Pangbourne Properties Limited (now part of Capital Property Fund), as an executive director in 2006 until resigning at the end of 2007, following a board reconstitution. William joined the Hospitality board in January 2008 and also practised as a director of Mkhabela Huntley Adekeye Inc, Attorneys, until joining CDH.

## 11. Willy Ross (66) – Independent non-executive

CTA, CA(SA)

Willy was appointed a director of Hospitality in April 2007. He is the chairman of Hospitality's audit committee and has more than 32 years' merchant and investment banking experience. He 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).

## Regulatory compliance

The board of Hospitality is committed to promoting the spirit and complying with the principles of good corporate governance as outlined in the King Code on Corporate Governance (King III). The board acknowledges that maintaining good governance is an ongoing process and will continue to monitor the status of the company's compliance with King III.

During the year under review, a corporate governance gap analysis was conducted in order to compare the company's practices with those recommended by King III.

The following changes were made to the company's governance framework:

### *Newly implemented*

- Established a nomination committee
- Adopted a terms of reference for the nomination committee
- Filled a vacancy on the audit and risk committee
- Implemented a code of ethics
- Implemented a disclosure of information policy

### *Revised*

- Conflicts of interest policy
- Levels of authority
- Share dealing policy
- Remuneration committee terms of reference
- Remuneration policy
- Audit Committee and risk committee terms of reference
- Investment committee terms of reference

Apart from the exceptions listed below, Hospitality has complied with King III for the period under review:

### *1. Composition of the audit committee*

Following a lengthy recruitment process, commencing with an advertisement which was circulated to the members of the Institute of Directors seeking an independent non-executive director to be appointed to the board of Hospitality and to the company's audit and risk committee, CV's were received from approximately 140 interested applicants.

The nomination committee gave careful consideration to the credentials and knowledge of each applicant in order to find the correct candidate whose skills and qualifications would complement those of the existing committee members, taking into consideration the additional responsibility and accountability conferred upon this committee by King III and the Companies Act, 71 of 2008. The nomination committee made a final recommendation to the board and Mrs Linda de Beer was appointed as an independent non-executive director of the board and a member of the audit committee with effect from 17 August 2011.

### *2. Remuneration for the three most highly-paid employees who are not directors of the company*

Employees are appointed by HPF Management (Pty) Limited, a wholly-owned subsidiary of Hospitality. In view of the small number of employees and the sensitive nature of salaries, the salaries and incentives of the three most highly paid employees who are not directors are reviewed by the remuneration committee annually, but will not be disclosed.

### *3. Internal audit function*

The audit and risk committee is responsible for assessing the need for an internal audit function. Given the size and nature of the company's operations, the audit and risk committee is of the view that Hospitality currently has no need for a dedicated, in-house internal audit team. This decision is based on the company's principal risks lying with the hotel operations which are managed by third parties. The hotel management companies which are responsible for each of the hotel operations are required to implement effective internal controls and an efficient internal audit function. Internal audits of the hotel operations are conducted at least annually.

Hospitality's executive management reviews the outcome of these internal audits and reports to the audit and risk committee on any material risks.

Hospitality continuously assesses the efficiency of internal controls and the internal audit function.

The audit committee regularly assesses and monitors the business risks that could impact on the company and makes recommendations to the board on the management of these risks.

The company's internal controls and governance processes are reviewed as part of the company's annual financial audit which is conducted by KPMG Inc.

Hospitality's internal financial controls have been found to be effective.



#### 4. Shareholder approval

The Companies Act, 71 of 2008 (the Act) became effective on 1 May 2011. Shareholders will be asked to vote on a number of resolutions at the Annual General Meeting (AGM) to be held on 4 November 2011 in order for the company to remain in compliance with the Act. Amongst others these resolutions include a non-binding vote on the company's remuneration policy, the appointment of the members of the audit committee, approval for inter-company financial assistance and the pre-approval of non-executive directors' fees for the period 1 July 2011 to 30 June 2012.

In line with the transitional arrangements of the Act, Hospitality will adopt a new Memorandum of Incorporation (MOI) by 1 May 2013. Shareholders will be provided with a revised Memorandum of Incorporation for consideration and adoption at the AGM to be held in 2012.

## The board

### Composition, responsibility and rotation of directors

A graphic presentation of the composition of the board and its sub-committees is set out on page 38 of this report. The credentials, age, a brief biography and length of service of each director can be found on page 35. Hospitality's board is chaired by Mr Frank Berkeley, who is independent.

The board comprises eight non-executive directors and three executive directors. Six of the eight non-executive directors are independent. The independence of the company's directors is assessed in accordance with the requirements of King III and the JSE Listings Requirements (the JSE requirements). There exists a balance

of power and authority at board level such that no one individual director has unfettered powers of decision making.

Apart from the chairman, one-third of the non-executive directors retire from office by rotation at the company's AGM and if eligible may offer themselves for re-election.

In accordance with the company's MOI, the chairman may hold office for a maximum period of three years, upon expiry of which he shall be eligible for reappointment for a further three-year period.

### Chairman, chief executive officer and executive directors

The roles of the chairman and the chief executive officer are separated. The chairman is responsible for the effective functioning of the board. The chief executive officer is the principal representative of the company. He is responsible for the operation of the business and for leading the executive team. The executive directors ensure the implementation of strategies and objectives as agreed and monitored by the board.

### Meetings and conduct

Board meetings are held 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 make informed decisions. The board has a formal charter in place which sets out its objectives and commitments.

All directors have access to the chairman, the executive management team and the company secretary.

A summary of attendance at board and sub-committee meetings is set out below:

| For the period 1 July 2010 to 30 June 2011 | Board | Audit | BEE | Investment | Remune-<br>ration | Nomi-<br>nation | #C-Corp<br>restructure |
|--|-------|-------|-----|------------|-------------------|-----------------|------------------------|
| Number of meetings                         | 6     | 5     | 4   | 4          | 3                 | 2               | 4                      |
| FM Berkeley (Chair)                        | 6     | –     | –   | –          | –                 | 2               | •4                     |
| KH Abdul-Karrim                            | 6     | 5     | –   | 4          | –                 | –               | 4                      |
| Y Aminzadeh                                | 4     | –     | –   | •1         | 3                 | –               | –                      |
| R Asmal                                    | 6     | •5    | •4  | •4         | •3                | –               | •4                     |
| ZN Kubukeli                                | 6     | –     | 4   | 4          | –                 | –               | –                      |
| MB Madumise                                | 6     | –     | 4   | –          | 3                 | 2               | 3                      |
| WM Midgley                                 | 6     | –     | –   | •1         | –                 | –               | 4                      |
| GA Nelson                                  | 5     | •5    | 4   | •4         | •3                | •2              | •1                     |
| AS Rogers                                  | 6     | •1    | •1  | 3          | •3                | –               | •4                     |
| WC Ross                                    | 6     | 5     | –   | 4          | 3                 | 2               | 4                      |

# A specialist committee established to investigate an alternative to or possible restructure of the existing C-Corp. See details on page 39

• By invitation

– Not a member

## Corporate governance continued

### *Appointment, period of office and terms of employment*

Appointments to the board are dealt with in a formal and transparent manner by the board as a whole. Appointments are made on recommendations by the nomination committee, following an assessment of any prospective board member's qualifications, abilities and experience so as to make a meaningful contribution to the board and its committees.



### Nomination committee

FM Berkeley (Chairman)  
 MB Madumise  
 WC Ross

### Board of directors

#### *Independent non-executive directors*

FM Berkeley (Chairman)  
 KH Abdul-Karrim  
 L de Beer  
 ZN Kubukeli  
 MB Madumise  
 WC Ross

#### *Non-executive director*

WJ Midgley  
 Y Aminzadeh

#### *Executive directors*

GA Nelson (Chief Executive Officer)  
 AS Rogers (Deputy Chief Executive Officer)  
 R Asmal (Financial Director)

### Audit and risk committee

WC Ross (Chairman)  
 KH Abdul-Karrim  
 L de Beer

### BEE committee

MB Madumise (Chairman)  
 ZN Kubukeli  
 GA Nelson

### Remuneration committee

MB Madumise (Chairman)  
 WC Ross  
 Y Aminzadeh

### Investment committee

KH Abdul-Karrim (Chairman)  
 ZN Kubukeli  
 AS Rogers  
 WC Ross

## Committees

### *Structure and reporting*

The board has established a number of sub-committees to give detailed attention to certain of its duties and to assist in the execution of its powers and authorities.

Each committee operates within defined, written terms of reference, which are regularly reviewed by the board in order to ensure compliance with best practice and alignment with changing legislation.

Each sub-committee reports back to the board at least quarterly. The minutes of sub-committee meetings held during a quarter are distributed to directors and noted at the next quarterly board meeting following the sub-committee meeting. The chairmen of the sub-committees report back verbally at the quarterly board meetings on the activities of the committees.

### *Audit and risk committee*

**Membership:** Willy Ross (Chairman), Kamil Abdul-Karrim,  
Linda de Beer

The committee comprises three independent non-executive directors following the recent appointment of Linda de Beer. Formal terms of reference have been adopted for the committee and were again reviewed during the 2011 financial year in order to ensure compliance with King III and the Act.

The committee has an independent role with accountability to both the board and shareholders. During the period under review, the committee has carried out its responsibilities in terms of statutory compliance and as set out in its terms of reference. These include:

- overseeing integrated reporting;
- ensuring that when required, a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- reviewing the expertise, resources and experience of the company's finance function and that of the financial director;
- the responsibility of deciding if an internal audit function is required;
- playing an integral part in the finance and IT risk management processes;
- taking responsibility for the external audit function, which includes the responsibility of recommending the appointment of the external auditor; overseeing the external audit process; approving the terms of engagement and remuneration of the external auditor and pre-approving any contracts for non-audit services; and
- the responsibility of the risk management function.

The committee met five times during the reporting period. Attendance of these meetings may be found on page 37 of this report.

The chief executive officer and financial director attend committee meetings by invitation. The external auditors have unrestricted

access to the audit committee and its chairman. The external auditors also report their findings to the committee with members of executive management not in attendance.

The chairman of the board is not a member of the audit committee, but may attend meetings by invitation.

The committee, having assessed the independence of the external auditor, is of the opinion that KPMG Inc. is independent of the company and nominates their re-appointment as external auditors to shareholders.

The committee reviewed the expertise, resources and adequacy of resources of the finance function and experience of the financial director and considers it adequate.

### *Information Technology*

The Fund has implemented stringent policies and procedures to mitigate the risks associated with its IT infrastructure and to ensure the integrity of its data. The Fund runs its own IT infrastructure including its own server and security precautions to safeguard its information.

The risks associated with IT have been evaluated as being more material at the operational level. In order to mitigate the inherent risks, an integrated Information and Communications Technology platform has been implemented across all the hotels. The systems are audited quarterly and the findings are reported centrally to ensure the compliance of each hotel with the requirements. Because the hotels are in possession of extensive customer information, stringent policies and procedures have also been implemented to protect this data.

### *BEE committee*

**Membership:** Brenda Madumise (Chairman), Zuko Kubukeli,  
Gerald Nelson

The committee comprises two independent non-executive directors and one executive director. The committee met on four occasions during the period under review. Attendance of these meetings may be found on page 37 of this report.

The committee makes recommendations to the board on how to best achieve its transformation targets; it oversees general compliance with transformation legislation; and monitors ongoing Corporate Social Investment (CSI) and training projects.

The committee is of the view that, during the period under review, it has achieved its goals and carried out its responsibilities as set out in its written terms of reference.

### *C-Corp restructure committee*

**Membership:** Willy Ross (Chairman), Kamil Abdul-Karrim,  
Brenda Madumise, William Midgley

In May 2010, the board appointed the C-Corp restructure committee, a specialist committee tasked with investigating alternatives to or a possible restructuring of the existing C-Corp structure with

## Corporate governance continued

a view to implementing a model which is more robust, equitable and financially sustainable while at the same time achieving a long-term balance of risk and reward between all parties and eliminating certain conflicts of interest.

Java Capital (Java) was appointed as independent professional advisors in this regard and at least one representative of their corporate finance team attended all meetings of the committee. The committee met four times during the period under review. Attendance of these meetings may be found on page 37 of this report.

The committee comprised four non-executive directors of whom three are independent. The chairman of the board had a standing invitation to attend all meetings of the committee.

The committee made a final recommendation to the board during the financial year and has since been dissolved.

The board agreed to the restructure of the existing C-Corp leases from 1 July 2011. Further details may be found on page 37 of this report.

The sale of Grapnel Property Asset Managers (Pty) Limited's (GPAM) interests in C-Corp has eliminated the conflicts of interest of Mr Gerald Nelson, who is a director and shareholder of GPAM.

### *Investment committee*

**Membership:** Kamil Abdul-Karrim (Chairman), Zuko Kubukeli, Andrew Rogers, Willy Ross

The investment committee currently comprises four members of whom three are independent non-executive directors and one is an executive director. Meetings are held when required to consider the viability of capital investments in properties, acquisitions and disposals of properties, together with related strategic and operational plans and funding alternatives.

The committee met on four occasions during the period under review. Attendance of these meetings may be found on page 37 of this report.

Mr Nelson attends these meetings by invitation.

Matters which fall outside of executive management's approved authority limits are presented to the committee for consideration.

Mr Nelson, supported by a team of analysts, prepares proposals for submission to the committee and based on recommendations and agreements reached by the committee, represents the company in negotiations with third parties.

Each transaction is considered individually in line with the Fund's strategies and objectives and proposals that are believed to be feasible are, based on the size of the transaction, recommended to the board for ratification or approval.

### *Remuneration committee*

**Membership:** Brenda Madumise (Chairman), Yoseph Aminzadeh, Willy Ross

The committee comprises three non-executive directors of whom two are independent. The committee is chaired by Ms Madumise.

The committee met three times during the period under review. Attendance of these meetings may be found on page 37 of this report.

The committee oversees the setting of remuneration policies for the group and ensures that the company remunerates directors and executives fairly and responsibly.

The committee is confident that it has fulfilled its role as set out in its terms of reference, which includes:

- establishing a remuneration policy that will promote the achievement of strategic objectives and encourage individual performance;
- evaluating the performance of the chief executive officer and the executive directors;
- advising on the remuneration of non-executive directors; and
- the annual benchmarking of remuneration against the industry and independent market data.

The committee's remuneration report may be found on page 42.

## Evaluation

The board performs regular self-evaluations, which are done in the form of questionnaires. The performance and conduct of the respective committees, their chairmen and the chairman of the board and chief executive officer are also rated. Completed questionnaires are assessed by the audit committee chairman and the company secretary and the board is presented with the results. Any specific matters or concerns are addressed and dealt with by the audit committee chairman.

Any subjects of concern relating to the audit committee or its chairman is dealt with by the chairman of the board.

## Risk management

A summary of key risks and risk management strategies implemented can be found on page 19 of this report.

Assisted by the audit and risk committee, the board takes ultimate responsibility for the company's risk management process and the monitoring of its effectiveness.

Areas of risk are reported on quarterly to the board by the audit and risk committee. These are closely monitored and appropriately managed.

The company has and maintains an efficient process of risk management to manage key risks and, accordingly, the board is not aware of any key risk current, imminent or forecast, that may threaten the sustainability of the company.



The *Arabella Spa* is a glorious retreat that captures the essence of luxury, privacy and rejuvenation and was voted Africa's Leading Spa Resort for 2011  
[www.africanpridehotels.com/arabella](http://www.africanpridehotels.com/arabella)





Rosa van Onselen, Company Secretary

### Ethics

Hospitality has adopted a Code of Ethics which is binding on the directors and employees of the group. The Code of Ethics is underpinned by a number of supporting policies including the conflicts of interest and share dealing policies.

Hospitality is committed to conducting its business, internally and externally, in an open, honest, fair and transparent manner, so as to uphold its reputation as a responsible and ethical corporate citizen.

Hospitality subscribes to the following values and principles:

- Honest, open, transparent and timeous communication with its shareholders and stakeholders;
- Fair and honest business dealings;
- Avoiding conflicts of interest and declaring them when they arise in accordance with the company's conflict of interest policy;
- The execution of duties by directors and employees in an ethical and honest manner and never to the detriment of the company's reputation;
- Avoiding personal gain through the use of company property;
- Avoiding the use of corporate information for any purpose other than that for which it was intended, and keeping information confidential;
- Adhering to the practice of sound corporate governance, the company's policies and procedures and any laws applicable to the company;
- Encouraging the reporting of illegal and unethical behaviour;
- Respecting and not purposefully compromising its natural environment; and
- Having respect for the human rights and dignity of all directors and employees whatever their race, religion or gender.

The breach of this policy could result in disciplinary action and ultimately the termination of employment.

In addition, certain transgressions may also be criminal in nature and could expose the executor to criminal prosecution.

A whistle blowing process has been introduced.

For the period under review, no incidents have been reported through the available whistle blowing channels.

### Remuneration report

The purpose of the company's remuneration policy is to:

- Attract, reward and retain executives and staff of the requisite calibre, with the appropriate knowledge, attributes, skills and experience to allow them to add meaningful value to the company;
- Align the behaviour and performance of executives with the company's strategic goals, in the overall interests of shareholders and stakeholders; and
- Promote a culture that supports enterprise growth and innovation with appropriate short- and long-term rewards that are fair and reasonable.

All benefits paid to directors during the reporting period, may be found on page 85 of this report.

#### *Executive directors and staff*

- Basic remuneration

Annual salaries are structured on a cost-to-company basis, are guaranteed and are benchmarked each year against the industry and independent market data. For purposes of comparisons to market, the median level of remuneration for a specific position is used as the point of departure.

- Annual short-term scheme/Bonus payments

The annual criteria for payment of a short-term incentive are assessed on both company and individual performance and capped at two-thirds of the basic remuneration at executive director level and at a maximum of two months' basic salary at staff level. Qualifying targets are based on appropriate performance measures such as for example performance to budget, cost control, performance evaluations and the achievement of specific objectives set for the particular year.

- Long-term incentives/Participation in share incentive schemes

A long-term incentive scheme is to be investigated.

#### *Non-executive directors*

Hospitality's remuneration mix for non-executive directors consists of either:

- a basic fee in the form of an annual retainer; or
- a per meeting fee for actual attendance.

The chairman of the board and chairmen of the respective board committees are paid higher annual retainers than other board members as compensation for their extra responsibilities.

No share options or other incentive awards geared to share price or corporate performance are made to non-executive directors.

Non-executive directors' fees are approved in advance by shareholders by a special resolution at the company's AGM, and a resolution to this effect is set out on page 111 of the AGM notice.

The chief executive officer is employed by Grapnel Property Group (Pty) Limited (Grapnel). Grapnel has seconded the services of the chief executive officer to Hospitality, subject to a three-month notice period, which may not be exercised by either one of Grapnel, Hospitality or the chief executive officer so as to terminate the secondment prior to 30 June 2012. The secondment agreement contains a restraint of trade clause.

The deputy chief executive officer and the financial director are both full-time salaried employees of HPF Management (Pty) Limited, a wholly-owned subsidiary of Hospitality. Their employment contracts are subject to three and two months' notice periods, respectively, and do not include restraints of trade.

The termination of an executive director's contract of employment will result in a concomitant termination of his board appointment. Non-executive directors are not subject to fixed terms of employment and, as such, no service contracts have been entered into with Hospitality.

## Company Secretary

The board of directors have direct access to the Company Secretary who provides guidance and assistance in-line with the requirements outlined in the Act, King III and the JSE requirements.

The Company Secretary, where necessary, arranges training on changing regulations and legislation and could involve the company's sponsors, auditors or organisations such as the Institute of Directors.

## Delegation of authority

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

## Dealing in the linked units of Hospitality

Hospitality has established a share dealing policy in line with the JSE requirements and the Security Services Act, 36 of 2004, which prohibits any director or staff member of the group 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 end of the interim and annual reporting periods and the announcement of the financial results for such respective periods on SENS.

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

## Internal controls

The executive management team acts independently from the hotel operators and reports directly to the chief executive officer and ultimately to the board. The executive team is represented by the chief executive officer and 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 93 to 97 of this report.

## Communication and investor relations

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

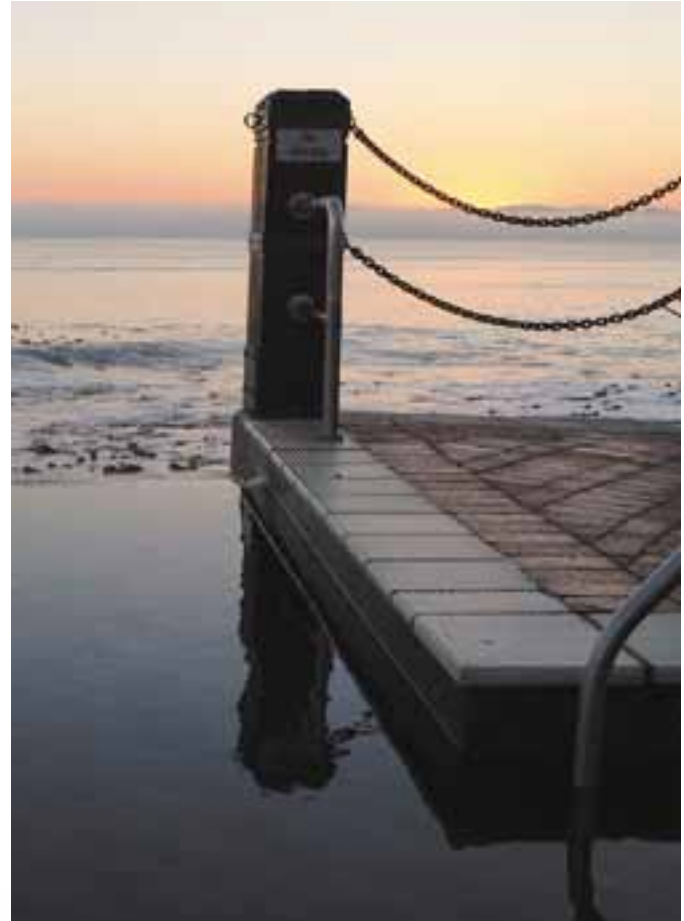
Hospitality's website <http://www.hpfc.co.za> is used as a tool in communicating with its stakeholders.

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 annual general meeting can be found on pages 108 to 115 of this report.

# Sustainability report

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*Radisson Blu Waterfront* is uniquely located on the glittering azure waterfront of Cape Town. The hotel has the majesty of the legendary Table Mountain soaring behind it and is the ideal location to sip sundowners while watching whales swim past the front of the hotel.  
[www.radissonblu.com/hotel-capetown](http://www.radissonblu.com/hotel-capetown)



# Sustainability report continued

## Introduction

Hospitality pursues the highest standards of corporate citizenship and sustainable development. The Fund endeavours to engage with all its stakeholders, both direct and indirect. Direct stakeholders, being those who engage directly with the Fund, and indirect stakeholders, being those who engage with the hotel and leisure properties belonging to the Fund.

The Fund has a holistic approach to sustainability which encompasses economic, environmental management and social issues. Social issues are considered to be those relating to the safety of employees and guests, health, training and development and the Fund's broader corporate social investments.

Sustainability has been incorporated into Hospitality's strategic objectives. As such, its performance in terms of the various aspects of sustainable development is measured alongside the financial and operational performance of the Fund.

As key performance areas for all hotel management, sustainability issues have also been incorporated into the various hotel monthly performance reviews. In line with the requirement for companies to report on their sustainability initiatives and to ensure that 'best practice' methods are implemented at the Fund's properties, the management of the various hotel management companies are continually engaged to ensure that sustainability matters receive top priority in all their management practices.

## Stakeholder engagement

The creation of value can only be sustainable if Hospitality engages with its stakeholders in a consistent and transparent manner. It is through its dealings with stakeholders, be they direct or indirect, that those issues which are material to the long-term strategic delivery become apparent. And, the manner in which it responds to these issues defines how the Fund performs in terms of its strategic objectives.

| Stakeholder groups   | Engagement approach and mechanisms   | Key topics and areas of concern  |
|--|--|--|
| <b>Direct: Fund stakeholders</b>   |  |  |
| Shareholders, bankers and financiers   | Presentations, annual reports, results announcements, SENS announcements, road shows and direct engagement   | Distribution growth, future prospects and compliance with loan covenants                         |
| Tenants: Hotel managers and brand  | Monthly and quarterly face-to-face meetings for each property to obtain updates on a wide variety of matters | Absolute and relative performance, benchmarking and strategy, trading environment                |
| Professional suppliers and business partners including legal and accounting, architects, engineers, interior designers | <i>Ad hoc</i> and formal meetings, reports, letters and emails   | Future business opportunities, relationships, project performance, level and standard of service |
| Staff  | Daily interactions   | Performance and daily responsibilities, compensation, professional development                   |
| Governments and regulatory authorities   | Formal meetings, written reports and regulatory submissions  | BEE, health and safety, labour matters, taxation   |
| <b>Indirect: Hotel stakeholders</b>  |  |  |
| Consumers  | Sales and marketing initiatives, direct interactions, campaigns  | Quality and value for money, consistent service delivery, BEE and environmental compliance       |
| Unions   | Direct engagement  | Wage settlements and working conditions  |
| Suppliers of consumables   | Direct engagement, tenders, centralised procurement  | Price and cost of goods, quality, service and payment terms                                      |
| Staff  | Direct interactions, electronic communications, employee forums  | Working conditions, salaries and benefits, training and development, safety                      |
| Communities and education institutions   | Direct engagement  | Sponsorships, grants and bursaries   |
| Local authorities  | Direct, telephonically and through legal counsel   | Lack of service delivery, maladministration, incorrect billing and incorrect valuations          |

Through its membership of industry bodies such as the Property Loan Stock Association (PLSA) and South African Property Owners Association (SAPOA), Hospitality engages regularly with other industry participants on current issues impacting the industry. It is also represented at the Institute of Directors (IOD) and The South African Institute of Chartered Accountants (SAICA) through the membership of its employees.

The accolades and awards which the hotels within Hospitality received during the year are a measure of how external stakeholders, in particular consumers, corporate customers and industry bodies, perceive the Fund. During the 2011 financial year, a number of the Fund's hotels received industry and consumer awards, including:

- **Westin Cape Town:**
  - Africa's Leading Meetings and Conference Hotel 2010 – World Travel Awards.
- **Mount Grace Country House and Spa**
  - The Rambling Vine was awarded the 2010 West Rand Tourism Restaurant Award;
  - The Rambling Vine was awarded the Diners Club Wine List Awards 2010;
  - The Spa was awarded the World Luxury Spa Award for the best luxury day spa 2011;
  - The Spa was awarded the Best Hotel & Spa Professional Beauty Award 2010;
  - The Spa received the Spa Award 2010 – Les Nouvelle;
  - The Hotel received a gold Events and Conferencing award from West Rand Tourism during 2010.
- **Arabella Hotel and Spa**
  - Golf course – ranked second in Western Cape and fifth in South Africa.

## Economic impact

Hospitality is committed to creating value for all its stakeholders. It recognises that with the holistic approach which it has adopted to sustainability, comes the responsibility of balancing the interests of all stakeholders.

### *Direct economic value*

The following table outlines the value added by the Fund through its portfolio of hotel and leisure properties:

| Stakeholder groups                              | R'000          |
|---|----------------|
| Revenue: Total rental income from tenants       | 277 043        |
| Paid to suppliers                               | 9 378          |
| <b>Total value created</b>                      | <b>267 665</b> |
| <b>Less: Value distributed</b>                  | <b>267 665</b> |
| Net distributions paid to shareholders          | 143 135        |
| Net finance charges paid to bankers and funders | 112 857        |
| Salaries and benefits paid to employees         | 10 473         |
| CSI to communities and education institutions   | 1 200          |

### *Indirect economic impacts*

The Fund directly employs only a small team of people who are primarily responsible for the strategy, governance and compliance and asset and financial management of the Fund. However, it has created jobs for the more than 2 000 people who are employed by its 26 hotel and leisure properties located throughout South Africa.

As a result of its highly consultative engagement with the tenants of all its properties, the Fund has an influence over the overall employee compensation adopted at the property level. This operational model has also enabled the Fund to implement standardised procurement policies and procedures which defines spending on locally-based suppliers at significant locations of operation. In the major urban centres, most of the hotels and managers have negotiated bulk supply arrangements with suppliers in order to minimise costs. However, hotels located in outlying areas are more likely to make use of local suppliers.

The Fund is acutely aware that its responsibility as a corporate citizen extends beyond the sustainability of its financial performance. Making a positive contribution to the socio-economic development of South Africa, and more specifically the communities in which its hotels operate, is of equal importance. In addition to the direct employment created by its hotels, the Fund indirectly contributed to wealth creation and skills development amongst its suppliers. For example, its ongoing capital investment programmes have an indirect beneficial impact, which cannot be measured purely in monetary terms. The Fund's procurement evaluations include a review of the broader scorecard parameters such as training and development.

### *Black economic empowerment*

Hospitality recognises its responsibility to comply with the Department of Trade and Industry's Codes of Good Practice, both from the perspective of good corporate citizenship and to fulfil its customers' procurement requirements.

# Sustainability report continued

Hospitality's black economic empowerment (BEE) partners, being Nobuntu, Nobuntu II and the National Empowerment Fund (NEF), currently hold some 15,8% of the combined linked units in issue, both through BEE structures and direct shareholding.

## Environmental impact

Even though the activities of Hospitality have a low environmental impact, the Fund continually evaluates mechanisms to reduce these impacts. The Fund recognises that monitoring the following key areas of operations are critical:

- Energy consumption (electrical, fuel and gas usage);
- Water consumption (irrigation, cleaning, laundry facilities and guest usage);
- Waste water recycling (sewage, laundry and kitchen);
- Emissions for air quality and pollution (kitchen emissions, laundry and non-smoking areas); and
- Waste management and recycling (disposal of paper, glass and cans, both steel and aluminium).

The recently acquired Arabella Country Estate is the only ISO 14001 accredited golf estate in Africa. This requires compliance with international standards of sustainable environmental management and undergoing annual environmental audits of its performance.

### Energy consumption

At the Fund's hotels, electricity that is provided by Eskom or the local municipalities is used. The majority of energy consumption is attributable to the heating of boilers, air-conditioners, lifts and lighting purposes. Energy usage at the Fund's hotels is largely determined by occupancy levels and the Fund is actively seeking alternative methods of reducing its energy consumption. These measures include the introduction of awareness campaigns among guests and employees. The Fund has determined that the measurement of energy consumption should be based on a 'per room sold' basis to enable a meaningful comparative to be established between the hotels and the industry at large. The Fund is currently in the process of registering the properties with Eskom's Demand Side Management Programmes and has identified service providers who are assisting with implementation of this project.

Securing the supply of municipal services especially stable power is an ongoing risk which the Fund monitors as erratic power supply can severely impact the guest experience, and as a result the financial performance of the Fund. Energy-efficient generators have been installed at all the Fund's hotels to minimise disruption to the businesses by supplying essential services during power outages.

## Electricity usage

### Average kWh per room night sold

|                         | 2-star | 3-star | 4-star | 5-star |
|-------------------------|--------|--------|--------|--------|
| 2010 financial year     | 39,45  | 64,62  | 62,24  | 118,37 |
| 2011 financial year     | 33,30  | 60,44  | 62,31  | 110,11 |
| Year-on-year change (%) | (15,6) | (6,5)  | 0,1    | (7,0)  |

Energy and water consumption are monitored daily and reported on monthly, together with a summary of utility bills in a sustainability reporting meeting held with senior executives and a specialist monitoring company, Utility Administration Services CC (UAS). UAS was appointed in May 2010 to assist the Fund's executive to improve measures to reduce energy consumed at the properties. Best-practice benchmarks were established and the following actions are being implemented by the hotel management companies.

### Fund initiatives

- Hot-water boilers are set to heat water in off-peak periods. Having fully insulated systems ensures hot water is available at all times. Air-conditioning plants 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 key-card activated switches, have been installed in new and refurbished properties. This allows shutdown of all non-essential electrical items when rooms are unoccupied. Boiler temperatures are set to minimum levels and, where possible, heat pump systems, which are more energy efficient, are being installed. Where central air-conditioning chiller plants are installed, the utilisation of heat generated through the running of the plant in a heat exchange principle to heat/maintain hot water, is being explored;
- Administration offices, boardrooms and conference centres 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;
- Regular maintenance of all electrical equipment to ensure that operating efficiencies are maintained;
- Staff training programmes and initiatives include measures on saving power such as switching off lights in storage areas and bedrooms; and
- The installation of power factor correction equipment.

### 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 via borehole water or 'grey water' plants (recycled waste). As with energy consumption, the Fund measures water consumption on a 'per property per room night sold' basis. This enables comparative reports and benchmarking.

#### Water usage

##### Average litres per room night sold

|                         | 2-star | 3-star | 4-star | 5-star |
|-------------------------|--------|--------|--------|--------|
| 2010 financial year     | 1 078  | 776    | 630    | 1 679  |
| 2011 financial year     | 711    | 714    | 620    | 1 377  |
| Year-on-year change (%) | (34)   | (8,0)  | (1,6)  | (17,9) |

Outputs of water purification plants are tested each month by independent contractors and results retained.

UAS is assisting the Fund in actively seeking alternatives to reduce water consumption at its properties, particularly where development projects present opportunities to implement these initiatives. Some of the measures currently being adopted include:

- Guest-awareness programmes to reduce laundering of linen and towels;
- Toilets are being fitted with dual-flush mechanisms to reduce water consumption;
- Shower heads and taps are being fitted with aerators to simulate high flow rates, albeit at a significantly lower rate of usage;
- Showers are systematically replacing baths in 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; and
- Programmes are in place for the continual removal of invasive alien plant species.

#### Waste water

'Grey water' treatment plants have been established where possible and the outflow from these plants is used for irrigation. Other mitigating steps being implemented to reduce the effect of harmful substances on the environment include:

- Bio-degradable and environmentally friendly chemicals are used in all kitchen, cleaning and laundry operations;
- Guest supplies (soaps, shampoo, foam baths, conditioners and lotions) are bio-degradable;

- All hotels have grease traps that are regularly maintained to ensure kitchen and food greases are removed before entering waste systems; and
- Salt chlorinators are used where possible to maintain pool hygiene and minimise the use of chlorine-based products.

#### Air quality and pollution

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 extraction and filtration systems;
- Reducing the number of cleaning materials dispensed by aerosol;
- The use of only CO<sub>2</sub>-based fire extinguishers which are checked and tested for leakages every six months and hydrostatically tested every five years;
- Compliance with smoking legislation at all properties and ensuring public areas and the majority of hotel rooms are smoke-free;
- Use of ozone friendly refrigerants in all cooling equipment;
- Spillage-containment procedures are installed at chemical storage areas at each hotel and every diesel generator has containment areas for storing fuels. According to legislation, all spillages are recorded, the correct handling methodology clearly displayed in all storage areas and employees trained in the correct containment practices;
- Regular cleaning and replacement of air-conditioner filters; and
- A project has been implemented at one of the hotels which has engaged the services of Green Cab which provides a green tourism transport solution. The vehicles used by the transport service provider have been converted to run using liquefied petroleum gas and biodiesel which reduce carbon dioxide emissions.

#### Recycling

The majority of waste is currently being separated; however, the limited number of suitable service providers to remove these products remains challenging. An in-house education programme is in place at a number of the Fund's hotels to encourage employees to recycle waste material. Currently certain guest supplies that are not fully utilised in guest bedrooms are donated to local charitable organisations or establishments. Paper, glass and aluminium tins are also being recycled. Some of the institutions involved at the Fund's hotels in respect of recycling initiatives:

- Sappi and Mondi paper recycling;
- Collect-a-can; and
- Enviroglass.



Mr Allan Clingham, General Manager of Crowne Plaza Jhb – The Rosebank making a donation to Firland Childrens Home on behalf of the hotel



Mr Riaan Erasmus, HPF Group FM, donating a photocopier to Cotlands

## Biodiversity

Hospitality monitors the impact of its hotels which are located in both protected areas and locations of high biodiversity value.

Extensive environmental surveys were conducted at Mount Grace during which the Rock Scorpion was discovered. As a result of this discovery, the professional team involved in the hotel redevelopment made substantial design changes which involved a change to the layout of the proposed new bedroom units and villas in order to protect the scorpion's natural habitat. Many of the invasive plant species were also removed and proper attention given to the replacement of indigenous plants.

Arabella Country Estate is located within the transitional zone of the Kogelberg Biosphere Reserve and the adjacent Bot River Lagoon, which is a designated buffer zone to the Biosphere Reserve. Accordingly, the principles of sustainable development and protection of the natural environment on the actual property and adjacent to it are prioritised and the Fund has a number of initiatives in this regard:

- The Estate assists the Western Cape Nature Conservation Board (WCNCB) with the protection and maintenance of the adjacent Rooisands Reserve. The Estate also established an advisory committee on which it is represented with the WCNCB and members of the local community. The objective is to promote and ensure the protection and conservation of the Rooisands Reserve in order to retain the integrity of its Biosphere Reserve Status. Specific focus areas include the removal of alien species and managing soil erosion. The Estate has also upgraded infrastructure on the reserve, including the construction of bird hides, trails and other facilities for visitors to the reserve.
- The Arabella Country Estate regularly consults with an ecologist from the Kirstenbosch Botanical Gardens on the removal of alien species, and the successful introduction of local indigenous fynbos species.

## Social impact

Hospitality's social conduct is underpinned by the Fund's Code of Ethics as well as its formal policies which cover various aspects of the business.

### Workforce

Hospitality is proud of having a workforce which is both ethnically and culturally diverse.

Although Hospitality only employs a small team at the Fund level, it indirectly provides employment to more than 2 000 people across its 26 hotels and leisure properties.

Of the total workforce at the hotel properties, 37% is unionised. The Fund, together with its tenants, focuses on constructive engagement with the trade unions and when required, makes use of specialised labour consultants to facilitate the negotiation of equitable and realistic wage settlements.

The hotel sector is characterised by high staff turnover especially among middle to senior employees. With its wide range of hotels, many of which are managed by major national and international brands, the Fund is able to retain staff by being able to offer employees scope for development within its hotels in South Africa.

#### *Human rights and fair labour practices*

Because the total workforce of the Fund, both direct and indirect, is core to Hospitality's business, it is committed to creating a positive workplace where employees work in an inclusive environment and are rewarded fairly. In addition to upholding its Code of Ethics which is at the foundation of the Fund's conduct in relation to human rights and labour, the Fund practises fair employment with a policy to provide equality of opportunity for all without discrimination.

All members of the Fund's staff have been provided with a copy of employment policies and procedures and have committed to comply with Hospitality's Code of Ethics. Training relating to these policies and procedures, especially concerning all aspects of human rights and ethical business practices, is not formalised, but due to the small size of the team, issues and questions can be addressed as and when they arise.

In addition, the due diligence process that forms part of the appointment of all new managers and brands in the hotel's properties includes a review of labour practices and human rights policies. The ongoing interactions with tenants and regular monitoring of each hotel's performance by the Fund, provide natural checks and balances to prevent any human rights violations as well as a positive influence on making sure that fair and equitable remuneration practices are implemented.

To date there have been no instances of discrimination or violations involving the rights of Hospitality's direct workforce, its hotels' employees or any other individual stakeholders with which the Fund engages. There have been no legal actions for anti-competitive behaviour or anti-trust monopoly practices.

#### *Product responsibility*

Although Hospitality's property portfolio forms the backbone of the Fund's assets, its saleable product is the provision of hotel accommodation and conferencing facilities. The sustainability of its business has at its core the delivery of a superior guest experience. This relates not only to the comfort and quality of the

accommodation which is provided, but extends to the responsibility which the hotel has to its guests, relating to aspects such as their health and safety. Safety has been identified as one of the Fund's key strategic risks and all the required checks and balances to mitigate these risks have been implemented.

#### *Health and safety auditing*

The health and safety processes and procedures which are entrenched across Hospitality's hotels and leisure properties are fully compliant with the relevant laws and regulations of the country. A formal health and safety programme has been implemented in the Fund's hotels by the various hotel management companies and quarterly reporting in this regard is now mandatory. The programme includes the appointment and training of health and safety representatives. Records of these appointments, inspections and minutes of the monthly health and safety committee meetings are retained. Health and safety representatives now inspect workplaces monthly and include their findings in a formal report. Hotel management chair these safety committees and the various executives of the respective hotel management companies oversee these meetings each quarter.

Each hotel also has a comprehensive first aid programme where a minimum ratio of 1:50 employees per hotel receive formal first aid training. All hotels regularly undergo fire drills, with an evacuation procedure involving guests occurring every six months.

In addition, a number of the external brands also conduct annual health and safety audits. For example the fire life safety standards of Intercontinental Hotel Group are required to be complied with for Crowne Plaza Johannesburg – The Rosebank and the Holiday Inn Sandton. The Fund has ensured that it has implemented fire life safety standards which measure up to these higher requirements for its tenants.

As part of its recent extensive upgrade and refurbishment programme on most of its properties, the fire life standards were reviewed and the latest standards of smoke detection and other fire protection measures were implemented. Compliance with the OHS Act is an integral part of the risk management process and is used to inform preventative maintenance. The hotel's insurers have their own fire life safety requirements and conduct their own audits to manage these risks.

#### *Customer satisfaction*

Customer satisfaction is not only a measure of the quality of the Fund's products, it has an impact on its long-term economic sustainability as it is only by offering guests a superior customer experience that Hospitality can generate customer loyalty and grow its consumer base.



Mr Nils Rothbarth, the General Manager at Holiday Inn Sandton, handing over the donation of linen to Gift of the Givers foundation.

The Fund measures its customer satisfaction ratings across all its brands on a monthly basis and the results are benchmarked against other hotels in the brand. On average its guest satisfaction measures for the year under review compared favourably to these brand averages.

## Community and staff investment

### Introduction

During the year under review the individual hotels which are owned by Hospitality continued to support the immediate communities in which they operate by making contributions and supporting upliftment programmes. These are focused on feeding programmes, donations and improvements to schools and community centres. While the Fund identifies the initiatives and drives the corporate social investment strategies, once established, they are driven by the individual hotels and quarterly feedback reports are provided to the BEE committee.

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

- Cotlands
- Gift of the Givers
- Kids Haven
- Botshabelo Community
- Reach for a Dream
- The Cerebral Palsy Association

The Fund's focus has been on education and training.

### Boikarabelo/Botshabelo – Bread Oven Project

The mini-bakeries for which Hospitality provided funding were successfully opened for business in December 2010. In the previous reporting period, the Fund, in conjunction with Tri-star Construction (one of the Fund's appointed contractors), had provided the capital to the Botshabelo community in Magaliesburg to purchase two bread ovens. Each bread oven comprises a mini-bakery with a gas oven and all the requisite baking equipment. The two mini-bakeries at Botshabelo were completed during September 2010.

The bread oven project was established by Siyabonga Africa, a charity focused on nurturing, educating and supporting African children with the objective of assisting the communities and the operators of these bakeries to become self sustainable.

The staff and management of Mount Grace Country House & Spa have assisted with the training of staff in the necessary baking and business training skills.

The Botshabelo Community is run by Marion and Con Cloete and provides shelter, food and education to more than 550 orphaned South African children.



2011 UJ bursary students

### Cape Town Hotel School

The Cape Town Hotel School (the Hotel School) which is based in Granger Bay, Cape Town is currently undergoing a much needed refurbishment.

As part of this upgrade project, Hospitality has committed R475 000 to the construction of a new show kitchen at the Hotel School. The project is being undertaken by the Fund in conjunction with members of the professional team that it has worked with on the recent refurbishments of a number of Hospitality's hotels. These professionals are contributing their time and knowledge to the project without compensation. The show kitchen will be completed in October 2011.

### Hospitality Property Fund Bursary Scheme

The Hospitality Fund Bursary Scheme was established in August 2009 by the Fund in association with The University of Johannesburg School of Tourism and Hospitality (UJ).

The bursary scheme provides funding to previously disadvantaged South African students to complete a three-year National Diploma in Hospitality Management with UJ. The beneficiaries of these bursaries have a one-year service obligation to Hospitality for each year of study which provides the Fund with well-trained employees for its hotels.

During the 2011 academic year, bursaries were awarded to 11 qualifying students at a total cost of R240 000.

Third-year bursary students complete their practical training at Hospitality's Holiday Inn Sandton and Crowne Plaza – The Rosebank hotels.

### The Arabella Community Trust (ACT)

Another major CSI initiative of the Fund is the ACT which is managed by six Trustees, half of whom are appointed by Hospitality. It was established mainly as the vehicle to channel funds which are derived from a 1% levy of the revenue from hotel guests at the Arabella developments in Kleinmond to the five previously disadvantaged communities of Mount Pleasant, Zwelihle, Hawston, Bot River and Kleinmond. The Trust generates further income from specific charitable events. The primary objective is to improve the socio-economic situation of the people living in these communities and to engage with local NGOs to build sustainable skills among the residents.

### Training and development

In order to play a meaningful role in addressing the shortage of qualified people in the South African hotel and leisure industry, the Fund contributes significant funding to, and engages in extensive training programmes for staff at all levels. These include a wide variety of internally-managed programmes, industry-specific training as well as recognised qualifications. The Fund supports employees who pursue further academic studies by sponsoring part-time academic or certified courses. It also regularly provides opportunities to placement students to facilitate knowledge sharing and professional development of young talent in the hospitality industry.

### Training and Quality Development Academy

In 2010, Hospitality established a Training and Quality Development academy in conjunction with Extrabold Hotel Management (Pty) Limited which has established training programmes specific to the development of supervisory staff and middle management ('collectively, Junior Management'). The development programmes are 100% PDI-focused.

During the 2011 financial year 33 junior management staff benefited from these programmes.

### Trainees, interns and learnerships

Hospitality conducts trainee and internships at its hotels by engaging, via its contracted hotel management companies, with various institutions in South Africa and internationally. A total of 32 trainees, interns and learners completed their practical training at hotels within Hospitality's portfolio during the 2011 financial year.

The Hospitality Youth Initiative, which was implemented in conjunction with Extrabold Hotel Management (Pty) Limited, has provided life skills training including mind set, goal setting and general workplace initiation to some 24 students from rural communities. This programme has been very successful, and the majority of the students have been employed by hotels in the Hospitality portfolio, in positions ranging from food and beverage to housekeeping.

In acknowledging the skills shortage in the South African tourism industry, especially the shortage of leadership and managerial skills in the hotel sector, Hospitality will continue its focus on education, development and training during the 2012 financial year.

# Annual financial statements

For the year ended 30 June 2011

Company registration number – 2005/014211/06

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*The Arabella Golf Course stretches through rolling fairways, deceptive bunkers and challenging water traps. A truly unique golf course set on the banks of the Bot River Lagoon and fringed by indigenous wild flowers. Arabella was voted the 5th best golf course in South Africa in 2011 as well as Africa's Leading Luxury Hotel. [www.africanpridehotels.com/arabella](http://www.africanpridehotels.com/arabella)*



## 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 statements of financial position at 30 June 2011, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows 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, the AC 500 series issued by The South African Institute of Chartered Accountants and in the manner required by the Companies Act, 2008 (as amended) and Companies Regulations 2011, of South Africa.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

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

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

### Approval of group annual financial statements and annual financial statements

The group annual financial statements and annual financial statements of Hospitality Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 17 August 2011 and signed on their behalf by



**FM Berkeley**  
Chairman



**GA Nelson**  
Chief Executive Officer

### Preparer of the annual financial statements

The group annual financial statements and annual financial statements of Hospitality Property Fund Limited as approved by the board of directors on the above date, were prepared by the Financial Director, Mr R Asmal, and the Group Financial Manager, Mr R Erasmus.

### Certificate of the Company Secretary

We hereby certify that for the year ended 30 June 2011, 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, 2008, and all such returns are true, correct and up to date.



**LR van Onselen**  
for HPF Management (Pty) Limited  
Secretaries

17 August 2011

## Report of the audit committee

### Report in terms of section 61(8)(a)(ii) and section 94(7)(f) of the Companies Act, 71 of 2008 (the Companies Act)

Information on the role and composition of the audit committee, its terms of reference and procedures, meeting attendance and responsibilities are described more fully in the corporate governance report commencing on page 39 of this integrated report. The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Fund's accounting, internal control and financial reporting practices.

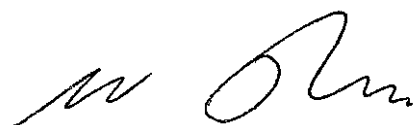
### Execution of functions of the audit committee

The committee performed the following activities during the year under review:

- Considered the independence and objectivity of the external auditors and ensured that the scope of additional services provided did not impair their independence;
- Reviewed the external audit plan and approved the external auditors' fee proposal for the 2011 financial year;
- Approved the non-audit-related services performed by the external auditors in the year in accordance with the policy established and approved by the board;
- Considered accounting treatments, significant financial transactions, interest rate swap restructures and other financial information;
- In compliance with the JSE Listings Requirement 3.84(h), the committee reviewed the performance, appropriateness and expertise of the financial director, Mr R Asmal, and was satisfied with his experience and expertise to fulfil his role; and
- Considered the appropriateness of the accounting policies.

After assessing the requirements set out in section 94(7)(a-e) of the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors, and recommends the reappointment of the external auditors at the next annual general meeting.

The audit committee has evaluated the financial statements of the group and company for the year ended 30 June 2011 and, based on the information provided to the audit committee, considers that the group and company complies with the Companies Act, International Financial Reporting Standards (IFRS) and the Listings Requirements of the JSE.



WC Ross

*Audit committee chairman*

# Report of the independent auditor

To the Members of Hospitality Property Fund Limited

## Report on the financial statements

We have audited the consolidated and separate annual financial statements of Hospitality Property Fund Limited, which comprise the statements of financial position at 30 June 2011, and the statements of comprehensive income, changes in equity and cash flows 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 59 to 103.

## 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 the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

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

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

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

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Hospitality Property Fund Limited at 30 June 2011, 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 TA Middlemiss**

*Chartered Accountant (SA)*

*Registered Auditor*

Director

17 August 2011

KPMG Crescent

85 Empire Road

Parktown

Johannesburg

# Directors' report

The directors have pleasure in submitting their report for the year ended 30 June 2011.

## Nature of business

Hospitality Property Fund Limited (the Fund) 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 26 properties valued at R3,9 billion.

## Review of operations

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

## Distributions

Trading conditions across the hospitality industry remained tough throughout the year resulting in tenants either remaining under pressure to service fixed rentals or contributions to variable rentals declining. The A-linked units distribution for the year amounted to 122,11 cents, up 5% on the previous year and in line with the distribution structure. The B-linked units distribution was 58,90 cents or 33,1% lower than the previous year.

## 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 11 and 13 of the annual financial statements.

## Property valuations

The portfolio was revalued by independent property valuers at R3,9 billion (2010: R3,3 billion) and the net asset value per linked unit (excluding deferred taxation) was R12,71 (2010: R15,35) at year-end. During the year, capital acquisitions amounted to R776 million (2010: R110 million) and investments in existing hotels amounted to R130 million (2010: R56 million), and the revaluation of the standing portfolio decreased by R416 million (2010: R253 million).

## Borrowings

The average cost of borrowings for the group was 8,91% (2010: 10,16%) at 30 June 2011 and 60% of the group's borrowings were subject to fixed interest rates. The group's facilities with financial institutions as at 30 June 2011 was R1,9 billion with R1,7 billion being utilised at year-end. The group's gearing ratio at 30 June 2011 was 44,0% (2010: 39,4%).

## Debt facility

The group's borrowings facility of R1,3 billion with Absa expires in February 2012 and has therefore been classified as a current liability. The fund is currently in discussions with Absa and other financial institutions regarding the renewal of this facility, and is reviewing the proposals received.

## Directorate

Details of the composition and changes to the board can be found on page 35.

In terms of the company's articles of association Mrs L de Beer, Mr WJ Midgley and Mr ZN Kubukeli retire by rotation and offer themselves for re-election.

# Directors' report

## Directors' interests

The directors' holdings of linked units at 30 June 2011 were:

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

|             | 2011              |                     |                    |           | 2010              |                     |                    |           |
|-------------|-------------------|---------------------|--------------------|-----------|-------------------|---------------------|--------------------|-----------|
|             | Direct beneficial | Indirect beneficial | Held by associates | Total     | Direct beneficial | Indirect beneficial | Held by associates | Total     |
| Y Aminzadeh | –                 | –                   | –                  | –         | –                 | –                   | –                  | –         |
| ZN Kubukeli | –                 | 207 764             | –                  | 207 764   | –                 | 207 764             | –                  | 207 764   |
| MB Madumise | –                 | 302 940             | –                  | 302 940   | –                 | 302 940             | –                  | 302 940   |
| W Midgley   | –                 | 20 000              | 6 962              | 26 962    | –                 | 20 000              | 6 962              | 26 962    |
| TE Sewell * | –                 | –                   | –                  | –         | 40 443            | –                   | –                  | 40 443    |
| GA Nelson   | –                 | 1 536 057           | 270 026            | 1 806 083 | –                 | 1 536 057           | 398 433            | 1 934 490 |
|             | –                 | 2 066 761           | 276 988            | 2 343 749 | 40 443            | 2 066 761           | 405 395            | 2 512 599 |

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

|             | 2011              |                     |                    |           | 2010              |                     |                    |           |
|-------------|-------------------|---------------------|--------------------|-----------|-------------------|---------------------|--------------------|-----------|
|             | Direct beneficial | Indirect beneficial | Held by associates | Total     | Direct beneficial | Indirect beneficial | Held by associates | Total     |
| Y Aminzadeh | –                 | –                   | 847 189            | 847 189   | –                 | –                   | 847 189            | 847 189   |
| R Asmal     | 35 000            | –                   | –                  | 35 000    | 35 000            | –                   | –                  | 35 000    |
| FM Berkeley | 50 000            | –                   | –                  | 50 000    | 50 000            | –                   | –                  | 50 000    |
| ZN Kubukeli | –                 | 207 764             | –                  | 207 764   | –                 | 207 764             | –                  | 207 764   |
| WJ Midgley  | –                 | 40 000              | 13 924             | 53 924    | –                 | 40 000              | 13 924             | 53 924    |
| TE Sewell * | –                 | –                   | –                  | –         | 46 913            | –                   | –                  | 46 913    |
| GA Nelson   | –                 | 1 006 857           | 799 474            | 1 806 331 | –                 | 1 006 857           | 799 432            | 1 806 289 |
|             | 85 000            | 1 254 621           | 1 660 587          | 3 000 208 | 131 913           | 1 254 621           | 1 660 545          | 3 047 079 |

\* Resigned on 19 May 2010

*Changes in directors' interests from the date of year end to the date of publication of this report*

FM Berkeley – sold 50 000 B-linked units on 24 August 2011.

ZN Kubukeli and GA Nelson are directors and indirect shareholders of Nobuntu Investments II (Pty) Limited (Nobuntu II), one of Hospitality's empowerment investment structures. Messrs Kubukeli and Nelson had indirect interests of 3,18% and 10,58% respectively, in each of the HPA and HPB holdings of Nobuntu II.

As a consequence of the current trading conditions in the hotel industry and the impact this has had on the distributions and market price of the HPB's, Nobuntu II found itself in a technical breach of its loan covenants with Absa Bank Limited (Absa) in terms of a loan agreement between the parties. As a result and in terms of a pledge and cession between the parties, Absa took transfer of the rights, title and interest of 9 513 012 HPA and 9 513 012 HPB units, on 7 September 2011, reducing Messrs. Kubukeli and Nelson's indirect interests to nil.

## Directors' remuneration

Remuneration of directors is disclosed in note 17 to the annual financial statements.

## Distribution to unitholders

Distribution to unitholders is disclosed in note 21 of the annual financial statements.

## Corporate governance and internal controls

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

## Audit committee and independence of auditor

The audit committee consists only of independent directors and has reviewed these financial statements prior to their submission to the board for approval. The audit committee has also assessed the independence of the external auditor and is satisfied with their independence. Further detail regarding the scope and mandate of the audit committee is detailed on page 39 of this integrated report.

## Subsidiary companies

Information relating to the company's interest in its subsidiaries is detailed in note 6 of the annual financial statements.

## Associate companies

Information relating to the company's interest in its associates is detailed in note 7 of the annual financial statements.

## Going concern

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

## Subsequent events

The directors are not aware of any matter or circumstances arising since the end of the financial year to the date of this report, not otherwise dealt with in this report or in the group and company financial statements that would significantly affect the operations, the results and the financial position of the group and company.

## Company Secretary

The Company Secretary is HPF Management (Pty) Limited.

The appointed representative of HPF Management (Pty) Limited is Mrs LR van Onselen.

Business address: 3 on Glenhove, corner Glenhove Road and Tottenham Avenue, Melrose Estate

Postal address: PO Box 522195, Saxonwold, 2132

# Statements of financial position

as at 30 June 2011

|  | Notes | 2011<br>R'000    | GROUP<br>2010 *<br>R'000 | 2009 *<br>R'000 |
|--|-------|------------------|--------------------------|-----------------|
| <b>ASSETS</b>  |       |                  |                          |                 |
| <b>Non-current assets</b>  |       |                  |                          |                 |
|  |       | <b>4 109 300</b> | 3 471 279                | 3 404 252       |
| Investment properties  | 2     | <b>3 940 558</b> | 3 303 013                | 3 389 043       |
| Straight-line rent income accrual  | 3     | <b>15 172</b>    | 14 857                   | 15 209          |
| Investment properties and related accrual                                      |       | <b>3 955 730</b> | 3 317 870                | 3 404 252       |
| Furniture and equipment  | 4     | <b>748</b>       | 587                      | –               |
| Goodwill   | 5     | <b>152 822</b>   | 152 822                  | –               |
| Investment in associate  | 7     | <b>–</b>         | –                        | –               |
| <b>Current assets</b>  |       |                  |                          |                 |
|  |       | <b>57 903</b>    | 37 284                   | 12 619          |
| Trade and other receivables  | 8     | <b>37 413</b>    | 26 574                   | 2 791           |
| Properties held for trading  | 9     | <b>16 940</b>    | –                        | –               |
| Cash and cash equivalents  | 10    | <b>3 550</b>     | 10 710                   | 9 828           |
| <b>Total assets</b>  |       |                  |                          |                 |
|  |       | <b>4 167 203</b> | 3 508 563                | 3 416 871       |
| <b>EQUITY AND LIABILITIES</b>  |       |                  |                          |                 |
| <b>Equity</b>  |       |                  |                          |                 |
|  |       | <b>537 155</b>   | 664 208                  | 928 440         |
| Share capital and share premium  | 11    | <b>342 862</b>   | 259 195                  | 246 963         |
| Retained earnings  |       | <b>123 718</b>   | (701)                    | 980             |
| Fair value reserve   | 12    | <b>70 575</b>    | 405 714                  | 680 497         |
| <b>Non-current liabilities</b>   |       |                  |                          |                 |
|  |       | <b>2 152 503</b> | 2 625 847                | 2 364 469       |
| Debentures   | 13    | <b>1 668 714</b> | 1 186 507                | 1 157 912       |
| Interest-bearing liabilities   | 14    | <b>411 380</b>   | 1 308 371                | 1 013 564       |
| Derivative liability   | 28.1  | <b>21 542</b>    | 11 014                   | 70 456          |
| Contingent consideration   | 29    | <b>–</b>         | 32 842                   | –               |
| Deferred taxation  | 15    | <b>50 867</b>    | 87 113                   | 122 537         |
| <b>Current liabilities</b>   |       |                  |                          |                 |
|  |       | <b>1 477 545</b> | 218 508                  | 123 962         |
| Trade and other payables   | 16    | <b>63 257</b>    | 38 356                   | 52 115          |
| Bank overdraft   |       | <b>12 333</b>    | –                        | –               |
| Interest-bearing liabilities   | 14    | <b>1 328 962</b> | –                        | –               |
| Vendors on property acquisition  |       | <b>–</b>         | 110 400                  | –               |
| Debenture interest payable   | 23    | <b>72 993</b>    | 69 752                   | 71 847          |
| <b>Total equity and liabilities</b>  |       |                  |                          |                 |
|  |       | <b>4 167 203</b> | 3 508 563                | 3 416 871       |
| * Restated due to a change in accounting policy – refer to note 15             |       |                  |                          |                 |
| <b>A. NET ASSET VALUE PER LINKED UNIT (RAND)</b>                               |       |                  |                          |                 |
| A-linked unit  |       | <b>12,43</b>     | 14,66                    | 16,94           |
| B-linked unit  |       | <b>12,43</b>     | 14,66                    | 16,94           |
| <b>B. NET ASSET VALUE PER LINKED UNIT (EXCLUDING DEFERRED TAXATION) (RAND)</b> |       |                  |                          |                 |
| A-linked unit  |       | <b>12,71</b>     | 15,35                    | 17,93           |
| B-linked unit  |       | <b>12,71</b>     | 15,35                    | 17,93           |

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:  $(\text{Total assets} - \text{Total liabilities} + \text{Debentures} + \text{Deferred taxation}) / (\text{Linked units in issue at end of year})$

# Statements of financial position

as at 30 June 2011

|  | Notes | COMPANY          |                  |
|--|-------|------------------|------------------|
|  |       | 2011<br>R'000    | 2010<br>R'000    |
| <b>ASSETS</b>  |       |                  |                  |
| <b>Non-current assets</b>  |       |                  |                  |
| Investment in subsidiary   | 6     | 2 085 212        | 1 516 018        |
| <b>Current assets</b>  |       |                  |                  |
| Trade and other receivables  | 8     | 230              | 223              |
| Cash and cash equivalents  | 10    | 173              | 116              |
| <b>Total assets</b>  |       | <b>2 085 615</b> | <b>1 516 357</b> |
| <b>EQUITY AND LIABILITIES</b>  |       |                  |                  |
| <b>Equity</b>  |       |                  |                  |
| Share capital and share premium  | 11    | 342 862          | 259 195          |
| <b>Non-current liabilities</b>   |       |                  |                  |
| Debentures   | 13    | 1 668 714        | 1 186 507        |
| <b>Current liabilities</b>   |       |                  |                  |
| Trade and other payables   | 16    | 1 046            | 903              |
| Debenture interest payable   | 23    | 72 993           | 69 752           |
| <b>Total equity and liabilities</b>  |       | <b>2 085 615</b> | <b>1 516 357</b> |
| <b>A. NET ASSET VALUE PER LINKED UNIT (RAND)</b>                               |       |                  |                  |
| A-linked unit  |       | 11,33            | 11,45            |
| B-linked unit  |       | 11,33            | 11,45            |
| <b>B. NET ASSET VALUE PER LINKED UNIT (EXCLUDING DEFERRED TAXATION) (RAND)</b> |       |                  |                  |
| A-linked unit  |       | 11,33            | 11,45            |
| B-linked unit  |       | 11,33            | 11,45            |

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:  $(\text{Total assets} - \text{Total liabilities} + \text{Debentures} + \text{Deferred taxation}) / (\text{Linked units in issue at end of year})$

# Statements of comprehensive income

For the year ended 30 June 2011

|  | Notes | GROUP            |               | COMPANY        |               |
|--|-------|------------------|---------------|----------------|---------------|
|  |       | 2011<br>R'000    | 2010<br>R'000 | 2011<br>R'000  | 2010<br>R'000 |
| <b>Revenue</b>   |       | <b>277 358</b>   | 265 550       | –              | –             |
| Rental income – contractual  |       | 277 043          | 265 902       | –              | –             |
| – straight-line accrual  | 3     | 315              | (352)         | –              | –             |
| <b>Expenditure</b>   |       | <b>(21 051)</b>  | (29 577)      | <b>(4 582)</b> | (4 285)       |
| Operating expenses   |       | (21 051)         | (29 577)      | (4 582)        | (4 285)       |
| Operating profit/(loss)  | 17    | 256 307          | 235 973       | (4 582)        | (4 285)       |
| Transaction costs on business combinations   | 30    | (16 958)         | (2 268)       | –              | –             |
| <b>Net finance (cost)/income</b>   |       | <b>(112 857)</b> | (108 593)     | <b>147 717</b> | 132 017       |
| Finance income   | 18    | 13 366           | 2 023         | 147 717        | 132 017       |
| Finance costs  | 18    | (126 223)        | (110 616)     | –              | –             |
| <b>Profit before debenture interest, goodwill, fair value adjustments and taxation</b> |       | <b>126 492</b>   | 125 112       | <b>143 135</b> | 127 732       |
| Recoupment of debenture interest   | 19    | 17 534           | 1 194         | 17 534         | 1 194         |
| Debenture interest   |       | (160 669)        | (128 926)     | (160 669)      | (128 926)     |
| <b>Loss before fair value adjustments, goodwill and taxation</b>                       |       | <b>(16 643)</b>  | (2 620)       | –              | –             |
| Gain on bargain purchase   | 30    | 141 437          | 587           | –              | –             |
| Fair value adjustments   |       | (393 649)        | (309 855)     | –              | –             |
| Investment properties, before straight-lining adjustment                               |       | (415 651)        | (253 618)     | –              | –             |
| Straight-line rental income accrual  | 3     | (315)            | 352           | –              | –             |
| Total fair value of investment properties  |       | (415 966)        | (253 266)     | –              | –             |
| Contingent consideration   | 29    | 32 842           | (2 287)       | –              | –             |
| Interest-rate swaps  |       | (10 525)         | (54 302)      | –              | –             |
| <b>Loss before taxation</b>  |       | <b>(268 855)</b> | (311 888)     | –              | –             |
| Equity accounted loss from associate after tax   | 7     | (60)             | –             | –              | –             |
| Taxation (2010 restated)   | 20    | 58 195           | 35 424        | –              | –             |
| <b>Total loss and comprehensive loss for the year</b>                                  |       | <b>(210 720)</b> | (276 464)     | –              | –             |
| <b>Distribution per linked unit (cents)</b>  |       |                  |               |                |               |
| A-linked units   |       |                  |               |                |               |
| – interim  |       | 60,33            | 57,46         | 60,33          | 57,46         |
| – final  |       | 61,79            | 58,84         | 61,79          | 58,84         |
| – total  |       | 122,11           | 116,30        | 122,11         | 116,30        |
| B-linked units   |       |                  |               |                |               |
| – interim  |       | 38,45            | 36,30         | 38,45          | 36,30         |
| – final  |       | 20,45            | 51,68         | 20,45          | 51,68         |
| – total  |       | 58,90            | 87,98         | 58,90          | 87,98         |
| <b>(Loss)/Earnings and diluted (loss)/earnings per share (cents)</b>                   |       |                  |               |                |               |
| A-units  |       | (130,94)         | (193,06)      | –              | –             |
| B-units  |       | (130,94)         | (193,06)      | –              | –             |
|  |       | (261,88)         | (386,12)      | –              | –             |

# Statements of changes in equity

For the year ended 30 June 2011

|  | Share capital<br>R'000 | Share premium<br>R'000 | Retained earnings<br>R'000 | Fair value reserve<br>R'000 | Total<br>R'000 |
|--|------------------------|------------------------|----------------------------|-----------------------------|----------------|
| <b>GROUP</b>   |                        |                        |                            |                             |                |
| <b>Balance at 30 June 2009</b>   | 12                     | 246 951                | 980                        | 561 322                     | 809 265        |
| Impact of change in accounting policy  | –                      | –                      | –                          | 119 175                     | 119 175        |
| <b>Restated balance at 30 June 2009</b>  | 12                     | 246 951                | 980                        | 680 497                     | 928 440        |
| Loss/Total comprehensive loss for the year                                     | –                      | –                      | (276 464)                  | –                           | (276 464)      |
| Transactions with owners, recorded directly in equity                          | 1                      | 12 231                 | 274 783                    | (274 783)                   | 12 232         |
| Issue of shares  | 1                      | 12 411                 | –                          | –                           | 12 412         |
| Share issue expenses, net of tax   | –                      | (180)                  | –                          | –                           | (180)          |
| Transfer from fair value reserve – investment properties (net of deferred tax) | –                      | –                      | 218 194                    | (218 194)                   | –              |
| Transfer to fair value reserve – contingent consideration                      | –                      | –                      | 2 287                      | (2 287)                     | –              |
| Transfer to fair value reserve – interest rate swaps                           | –                      | –                      | 54 302                     | (54 302)                    | –              |
| <b>Restated balance at 30 June 2010</b>  | <b>13</b>              | <b>259 182</b>         | <b>(701)</b>               | <b>405 714</b>              | <b>664 208</b> |
| Loss/Total comprehensive loss for the year                                     | –                      | –                      | (210 720)                  | –                           | (210 720)      |
| Transactions with owners, recorded directly in equity                          | 5                      | 83 662                 | 335 139                    | (335 139)                   | 83 667         |
| Issue of shares  | 5                      | 95 551                 | –                          | –                           | 95 556         |
| Share issue expenses, net of tax   | –                      | (11 889)               | –                          | –                           | (11 889)       |
| Transfer from fair value reserve – investment properties (net of deferred tax) | –                      | –                      | 357 456                    | (357 456)                   | –              |
| Transfer to fair value reserve – contingent consideration                      | –                      | –                      | (32 842)                   | 32 842                      | –              |
| Transfer to fair value reserve – interest rate swaps                           | –                      | –                      | 10 525                     | (10 525)                    | –              |
| <b>Balance at 30 June 2011</b>   | <b>18</b>              | <b>342 844</b>         | <b>123 718</b>             | <b>70 575</b>               | <b>537 155</b> |
| <b>COMPANY</b>   |                        |                        |                            |                             |                |
| <b>Balance at 30 June 2009</b>   | 12                     | 246 951                | –                          | –                           | 246 963        |
| Transactions with owners, recorded directly in equity                          | 1                      | 12 231                 | –                          | –                           | 12 232         |
| Issue of shares  | 1                      | 12 411                 | –                          | –                           | 12 412         |
| Share issue costs, net of tax  | –                      | (180)                  | –                          | –                           | (180)          |
| <b>Balance at 30 June 2010</b>   | <b>13</b>              | <b>259 182</b>         | <b>–</b>                   | <b>–</b>                    | <b>259 195</b> |
| Transactions with owners, recorded directly in equity                          | 5                      | 83 662                 | –                          | –                           | 83 667         |
| Issue of shares  | 5                      | 95 551                 | –                          | –                           | 95 556         |
| Share issue costs, net of tax  | –                      | (11 889)               | –                          | –                           | (11 889)       |
| <b>Balance at 30 June 2011</b>   | <b>18</b>              | <b>342 844</b>         | <b>–</b>                   | <b>–</b>                    | <b>342 862</b> |

# Statements of cash flow

For the year ended 30 June 2011

|  | Notes | GROUP          |               | COMPANY       |               |
|--|-------|----------------|---------------|---------------|---------------|
|  |       | 2011<br>R'000  | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>Cash flows from operating activities</b>          |       |                |               |               |               |
| Cash generated from/(utilised in) operations         | 22    | 253 334        | 196 678       | (4 446)       | (4 273)       |
| Finance income received                              | 18    | 13 366         | 2 023         | 147 717       | 132 017       |
| Finance costs paid                                   | 18    | (126 223)      | (110 616)     | –             | –             |
| Distribution to unitholders                          | 23    | (162 533)      | (129 827)     | (162 533)     | (129 827)     |
| Net cash outflow from operating activities           |       | (22 056)       | (41 742)      | (19 262)      | (2 083)       |
| <b>Cash flows from investing activities</b>          |       |                |               |               |               |
| Acquisition and development of investment properties | 24    | (1 000 524)    | (56 249)      | –             | –             |
| Acquisition of properties held for sale              |       | (16 940)       | –             | –             | –             |
| Acquisition of furniture and equipment               |       | (397)          | (750)         | –             | –             |
| Acquisition of Manco                                 |       | –              | (122 268)     | –             | –             |
| Restructure of interest rate swaps                   | 28    | –              | (113 743)     | –             | –             |
| Investment in associate – Vexicure                   | 7     | (60)           | –             | –             | –             |
| Loan advanced to subsidiary                          |       | –              | –             | (569 194)     | (39 051)      |
| Net cash outflow from investing activities           |       | (1 017 921)    | (293 010)     | (569 194)     | (39 051)      |
| <b>Cash flows from financing activities</b>          |       |                |               |               |               |
| Proceeds from the issue of linked units              |       | 600 402        | 41 007        | 600 402       | 41 007        |
| Share issue expenses paid                            |       | (11 889)       | (180)         | (11 889)      | (180)         |
| Interest-bearing liabilities raised                  |       | 431 971        | 294 807       | –             | –             |
| Net cash inflow from financing activities            |       | 1 020 484      | 335 634       | 588 513       | 40 827        |
| Net (decrease)/increase in cash and cash equivalents |       | (19 493)       | 882           | 57            | (307)         |
| Cash and cash equivalents at beginning of year       |       | 10 710         | 9 828         | 116           | 423           |
| <b>Cash and cash equivalents at end of year</b>      |       | <b>(8 783)</b> | <b>10 710</b> | <b>173</b>    | <b>116</b>    |

# Notes to the annual financial statements

For the year ended 30 June 2011

## 1. ACCOUNTING POLICIES

Hospitality Property Fund Limited (the company) is a company domiciled in South Africa. The consolidated annual financial statements of the company for the year ended 30 June 2011 comprise those of the company and its subsidiary (together referred to as the group and individually as group entities) and the group's interest in associates. The financial statements were authorised for issue by the directors on 17 August 2011.

Where reference is made to the entity, this means the company or the group as appropriate in the context.

### 1.1 Statement of compliance

The group and company annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations issued, respectively, by the International Accounting Standards Board (IASB), the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the AC 500 series issued by The South African Institute of Chartered Accountants and the requirements of the Companies Act, 2008 of South Africa.

### 1.2 Basis of preparation

The annual 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, except for the changes disclosed under 1.2.1.

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.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed under note 31.

#### 1.2.1 Early adoption of amendment to IAS 12

The group has early adopted the amendments to IAS 12 as published by the IASB on 20 December 2010. Companies are only required to adopt this policy effective with years commencing on or after 1 January 2012. Refer to note 1.11 for further information.

### 1.3 Basis of consolidation

#### 1.3.1 Business combinations

Accounting for business combinations after 1 July 2009

The revised standards IFRS 3: Business Combinations (2008) and IAS 27: Consolidated and Separate Financial Statements (2008) became effective for all business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after that date are accounted for by applying the acquisition method.

The entity has applied the acquisition method for the business combinations disclosed in note 30.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the entity takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The entity measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## I. ACCOUNTING POLICIES *continued*

### 1.3 *Basis of consolidation continued*

#### 1.3.1 *Business combinations continued*

Accounting for business combinations after 1 July 2009 continued

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the group to the previous owners of the acquiree, and equity interests issued by the group. Consideration transferred also includes the fair value of any contingent consideration. If a business combination results in the termination of pre-existing relationships between the group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The group measures any non-controlling interest either at its proportionate interest in the identifiable net assets of the acquiree or at fair value. This election is made for each business combination.

Transaction costs that the group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

#### 1.3.2 *Subsidiaries*

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 are presently 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.

#### 1.3.3 *Investment in associates (equity accounted investees)*

Associates are those entities in which the group has joint control over the financial and operating policies. Significant influences are presumed to exist when the group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the group, from the date that significant influence commences until the date that significant influence ceases.

When the group's share of any losses exceeds its interest in the associate, the carrying amount of that investment is reduced to zero, and the recognition of further losses is discontinued except to the extent that the group has an obligation or has made payments on behalf of the associate.

#### 1.3.4 *Transaction eliminated on consolidation*

Intra-group balances and transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 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. The nature of these properties are hotels and includes furniture, fixtures and equipment.

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

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

On disposal of investment properties, the difference between the net disposal proceeds and the fair value at the date of the last valuation is charged or credited to the statement of comprehensive income. Fair value adjustment gains accounted for in the fair value reserve relating to such disposals are transferred to retained earnings in the statement of changes in equity and subsequently transferred to the fair value reserve for realised capital profits. Similarly, fair value adjustment losses are accounted for in the fair value reserve relating to such disposals are transferred from the accumulated loss in the statement of changes in equity and subsequently transferred to a non-distributable reserve for realised capital losses.

When the group begins to refurbish an existing investment property for continued future use as investment property, the property remains classified as investment property, which is measured based on the fair value model.

Investment property held under an operating lease is recognised in the entity's statement of financial position at its fair value.

#### *1.5 Properties held for trading*

Properties held for trading are recorded at the lower of cost and net realisable value.

Costs include all costs of purchase, transaction costs, costs of conversion and other costs incurred in bringing the properties to their present condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of selling.

#### *1.6 Financial instruments*

A financial instrument is recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value, plus directly attributable transaction costs for financial instruments other than those classified as at fair value through profit and 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.

Financial instruments include the following instruments per category:

Financial assets at fair value through profit or loss (held for trading)

Derivative financial assets

Financial liabilities at fair value through profit or loss (held for trading)

Derivative financial liabilities

Loans and receivables

Cash and cash equivalents

Trade and other receivables

Loan to subsidiary

Other financial liabilities

Trade and other payables

Interest-bearing borrowings

Debentures

Subsequent to initial recognition, financial instruments are measured on the basis set out on page 70:

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## I. ACCOUNTING POLICIES *continued*

### 1.6 *Financial instruments continued*

#### 1.6.1 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.

#### 1.6.2 Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less impairment losses. Receivables with a short duration are not discounted as the effects of discounting are immaterial.

#### 1.6.3 Trade and other payables

Trade and other payables are measured at amortised cost.

#### 1.6.4 Other financial liabilities

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

#### 1.6.5 Derivative financial instruments

The entity uses derivative financial instruments to economically hedge its exposure to interest rate risk arising from its financing activities. The entity 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. Any gains or losses on these financial instruments arising from changes in fair value do not affect distributable earnings. These gains or losses are transferred from retained earnings to a fair value reserve as they are not available for distribution.

The only derivative instruments held by the entity are interest rate swaps. The fair value of an interest rate swap is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking account of current interest rates and the current creditworthiness of the swap counterparties.

#### 1.6.6 Derecognition

The entity 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 entity; or
- (b) it transfers the rights to receive the contractual cash flows on the financial asset including transferring 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. If the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial 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.

#### 1.6.7 Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the entity 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.

#### 1.6.8 Impairment

Financial assets carried at amortised cost are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that trade and other receivables are impaired includes default or delinquency by a debtor.

The entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment and, if found not to be specifically impaired, are collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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.

#### *1.7 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.

#### *1.8 Provisions*

Provisions are recognised when the entity 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.

#### *1.9 Revenue recognition*

##### *1.9.1 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 entity merely acts as agent and makes payment of these costs on behalf of lessees, are offset against the relevant costs.

##### *1.9.2 Finance income*

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

#### *1.10 Expenses*

##### *1.10.1 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.

##### *1.10.2 Finance costs*

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

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

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

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## I. ACCOUNTING POLICIES *continued*

### 1.11 *Taxation*

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

Deferred tax is provided on 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 in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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 reporting date.

#### *Amendment to IAS 12 – Deferred Tax on Investment Property*

The group has early adopted the amendments to IAS 12: Deferred Tax on Investment Property, which is effective for annual periods beginning on or after 1 January 2012. The application of the amendments to IAS 12 will be applied retrospectively from the current year-end, 30 June 2011, and has no impact on the distribution per linked unit or earnings per share.

Under the amendments of IAS 12 the measurement of deferred tax assets and liabilities is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within the group's business model whose objective it is to consume substantially all the economic benefits of the assets over the life thereof.

Investment properties are held as long-term income-generating assets. Therefore, 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

### 1.12 *Segment reporting*

#### *Determination and presentation of operating segments*

The group determines and presents operating segments based on the information that is provided internally to the CEO, who is the group's chief operating decision-maker.

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit includes actual rental cash flows and does not include straight-lining of leases adjustments, nor does it include any fair value adjustments. Inter-segments pricing is determined on an arm's length basis.

Segment results that are reported to the CEO 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 properties) and related revenue, loans, debentures, deferred tax, income tax assets or liabilities, borrowings and related expenses.

Segment capital expenditure is the total cost incurred during the period to acquire, refurbish and upgrade investment properties.

### 1.13 Employee benefits:

#### 1.13.1 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. Short-term employee benefits are measured on an undiscounted basis. The accrual for employee entitlements to salaries and annual leave represent the amount which the group has a present obligation to pay as a result of the employees' services provided to the reporting date.

#### 1.13.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Pre-paid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

### 1.14 Intangible assets

#### (i) Goodwill

Goodwill that arises upon the acquisition of businesses is included in intangible assets. For measurement of goodwill at initial recognition, see note 1.3.1.

#### Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

#### (ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

#### (iii) Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

#### (iv) Other intangible assets

Other intangible assets that are acquired by the entity and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## I. ACCOUNTING POLICIES *continued*

### 1.15 *Property, plant and equipment*

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

#### (ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the entity will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

|                                | 2011           | 2010    |
|--------------------------------|----------------|---------|
| Furniture and equipment        | <b>6 years</b> | 6 years |
| Computer hardware and software | <b>3 years</b> | 3 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 1.16 *Impairment of non-financial assets*

The carrying amount of the entity's assets, other than investment property and deferred tax assets, is reviewed at each reporting 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 these 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.

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.

### 1.17 Leases

The entity is party to numerous leasing contracts as the lessor of the property. All leases are operating leases, which are those leases where the entity retains a significant portion of the risks and rewards of ownership. An adjustment is made to contractual rental income earned to bring to account in the current period the difference between the rental income that the entity is currently entitled to and the rental for the period calculated on a smoothed, straight-line basis over the period of the lease term. The entity is also party to leasing contracts as the lessee of some property and equipment. Operating lease rentals with fixed escalation clauses are recognised in profit or loss on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease asset or operating lease liability.

#### IAS 17: Leases (amendment)

IAS 17 is amended by the deletion of the guidance stating that a lease of land with an indefinite economic life is normally classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. In terms of the amendment, a land lease with a lease term of several decades may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee. The amendment to IAS 17 is already in line with the group's accounting policy and will have no impact on the distributions per linked unit or earnings per share.

### 1.18 Reclassification enhancements

#### IAS 7: Statement of Cash Flows (amendment)

The amendment is effective for the entity's financial reporting period ending 30 June 2011 and clarifies that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. This will only impact the classification of cash flows and will have no impact on the distribution per linked unit or earnings per share.

### 1.19 Forthcoming requirements

There are a number of forthcoming new standards and interpretations and amendments to currently effective 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 entity:

#### IAS 24: Related Party Disclosures (revised)

IAS 24 (revised) will be adopted by the entity for the first time for its financial reporting period ending 30 June 2012. The standard will be applied retrospectively.

IAS 24 (revised) addresses the disclosure requirements in respect of related parties, with the main change relating to the definition of a related party.

#### IFRS 9: Financial Instruments

IFRS 9 will be adopted by the entity for the first time for its financial reporting period ending 30 June 2014. The standard will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.

Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.

The standard is not expected to have any impact on the entity's financial statements, as the entity's only financial assets are derivatives, cash and cash equivalents and trade and other receivables, all of which are unaffected by IFRS 9.

#### Annual Improvements: Projects of the IASB

Each year the IASB makes amendments to certain Standards and Interpretations in issue. Some of the amendments made during the 2010 and 2011 annual improvements projects are not yet effective. Management have considered all the improvements and have concluded that they will have either no or minimal impact, with the exception of the following:

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## I. ACCOUNTING POLICIES *continued*

### 1.19 *Forthcoming requirements continued*

#### IFRS 7: Financial Instruments: Disclosures (amendments)

The amendments are effective for the entity's financial reporting period ending 30 June 2012 and add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. This will not have any effect on the recognition and measurement of financial instruments, but only on disclosures.

#### IFRS 10: Consolidated Financial Statements

IFRS 10: Consolidated Financial Statements introduces a new approach in determining as to whether an investee should be consolidated or not. Under IFRS 10, an investee is controlled and should be consolidated if the investor is exposed or has the right to variable returns from its investment in the investee, and it has the ability to affect those returns through its power over the investee. IFRS 10 is only effective for periods beginning on or after 1 January 2013.

#### IFRS 11: Joint Arrangements

IFRS 11: Joint Arrangements overhauls the method of accounting for joint ventures, now known as Joint arrangements. Under IFRS 11, joint arrangements are consolidated based on the equity accounting method rather than the proportionate line by line consolidation method. IFRS 11 is only effective for periods beginning on or after 1 January 2013.

#### IFRS 12: Disclosure of Interests in Other Entities

IFRS 12: Disclosure of Interests in Other Entities combines the disclosure requirements for subsidiaries, joint arrangements associates, as well as unconsolidated structured entities into one standard. Structured entities are those entities whereby the voting rights is not the dominant factor in determining who controls the entity, but rather the risk exposure to that entity. IFRS 12 will only be effective for periods beginning on or after 1 January 2013.

#### IFRS 13: Fair Value Measurement

IFRS 13: Fair Value Measurement defines value and establishes a framework for measuring fair value and sets out the disclosure requirements for all fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRS and does not introduce new fair value measurements. IFRS 13 will be fully implemented on 30 June 2013.

|  | GROUP         |               | COMPANY       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>2. INVESTMENT PROPERTIES</b>                    |               |               |               |               |
| Balance at beginning of year                       | 3 303 013     | 3 389 043     | –             | –             |
| Additions – acquisitions at fair value             | 922 661       | 1 10 987      | –             | –             |
| Additions at cost – capitalised expenditure        | 130 850       | 56 249        | –             | –             |
| Fair value adjustment                              | (415 651)     | (253 618)     | –             | –             |
| Property at fair value                             | 3 940 873     | 3 302 661     | –             | –             |
| <i>Adjust:</i> Straight-line rental income accrual | (315)         | 352           | –             | –             |
| Balance at end of year                             | 3 940 558     | 3 303 013     | –             | –             |

The investment property portfolio serves as collateral against loans from funding banks. Refer to note 14.

Investment properties were independently valued at 30 June 2011. The valuation of the portfolio was split between the following registered valuers from JHI (Gensec Property Services Limited):

Mr B van Vuuren Professional Associate Valuer; and

Mrs L van der Merwe Professional Associate Valuer.

The valuations were undertaken using the discounted cash flow method (DCF). 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.

A summary of the valuations and the relevant assumptions is reflected on pages 30 and 31.

Finance costs incurred in the redevelopment of the properties were capitalised based on the funding costs incurred on the development loans from banks.

Details of construction and redevelopments are contained on page 26.

|   | GROUP         |               | COMPANY       |               |
|---|---------------|---------------|---------------|---------------|
|   | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>3. STRAIGHT-LINE RENT INCOME ACCRUAL</b>         |               |               |               |               |
| Balance at beginning of year                        | 14 857        | 15 209        | –             | –             |
| Straight-line rental reversed/(accrued) during year | 315           | (352)         | –             | –             |
| Balance at end of year                              | 15 172        | 14 857        | –             | –             |

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 4. PROPERTY, PLANT AND EQUIPMENT

*Furniture and equipment*

|   | GROUP          |                | COMPANY       |               |
|---|----------------|----------------|---------------|---------------|
|   | 2011<br>R'000  | 2010<br>R'000  | 2011<br>R'000 | 2010<br>R'000 |
| <b>Cost</b>                                       |                |                |               |               |
| Balance at beginning of year                      | 750            | –              | –             | –             |
| Acquisition during year                           | 769            | 18             | –             | –             |
| Acquired in a business combination                | –              | 732            | –             | –             |
| Disposals   | (531)          | –              | –             | –             |
| Balance at end of year                            | 988            | 750            | –             | –             |
| <b>Depreciation and impairment losses</b>         |                |                |               |               |
| Balance at beginning of year                      | 163            | –              | –             | –             |
| Depreciation for the year                         | 240            | 163            | –             | –             |
| Disposals   | (163)          | –              | –             | –             |
| Balance at end of year                            | 240            | 163            | –             | –             |
| <b>Carrying amount</b>                            |                |                |               |               |
| Balance at beginning of year                      | 587            | –              | –             | –             |
| Balance at end of year                            | 748            | 587            | –             | –             |
| <b>5. GOODWILL</b>                                |                |                |               |               |
| <b>Cost</b>                                       |                |                |               |               |
| Acquisition of Hospitality Property Fund Managers | 152 822        | 152 822        | –             | –             |
| Amortisation and impairment losses                | –              | –              | –             | –             |
| <b>Carrying value at end of year</b>              | <b>152 822</b> | <b>152 822</b> | <b>–</b>      | <b>–</b>      |

Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing goodwill is allocated to the group's management services entity, which represents the asset management business within the group where goodwill is monitored for internal management purposes.

The recoverable amount of the cash-generating unit was based on its fair value less cost to sell. It was determined that the recoverable amount was higher than the carrying amount and therefore no impairment loss was recognised. The recoverable amount was calculated by discounting the projected future cash flows generated from the continuing use of the unit and was based on the following key assumptions and past experience:

- (i) the management contract will continue on the same terms that were in place previously namely:
  - an annual management fee of 1% of enterprise value (being a combination of interest-bearing debt and market capitalisation);
  - 2% acquisition and development fee;
- (ii) remuneration in respect of all staff employed by the asset management company will grow in line with inflation;
- (iii) rental cost of premises and all overheads will change in line with inflation; and
- (iv) the value in use was calculated based on an amount equivalent to the estimated future cash flow of HPF Management from 2012 to 2016. The cash flow of HPF Management for each of the years was calculated by taking the net profit before tax and depreciation cash flows from the operation for each of the years escalated by the CPI for a five-year forecast period and discounting the forecast cash flows by the average yield of Hospitality Property Fund Limited over the previous 12 months.

|   | GROUP         |               | COMPANY          |                  |
|---|---------------|---------------|------------------|------------------|
|   | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000    | 2010<br>R'000    |
| <b>6. INVESTMENT IN SUBSIDIARY</b>  |               |               |                  |                  |
| Shares at cost (R120)   |               |               | –                | –                |
| Loan to subsidiary  |               |               | 2 085 212        | 1 516 018        |
|   |               |               | <b>2 085 212</b> | <b>1 516 018</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 is unsecured, 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 R147 million (2010: R132 million) has been paid as interest to the holding company during this year.</p> |               |               |                  |                  |
| <b>7. INVESTMENT IN ASSOCIATE</b>   |               |               |                  |                  |
| Cost of investment in Vexicure (Pty) Limited (R120)   | –             | –             | –                | –                |
| Disposal of share in Vexicure (Pty) Limited (R70)   | –             | –             | –                | –                |
| Loss attributable to HPF  | (60)          | –             | –                | –                |
| Dividends received  | –             | –             | –                | –                |
| Carrying value of investment limited to a minimum of R nil  | –             | –             | –                | –                |
| <p>Vexicure (Pty) Limited (Vexicure) was incorporated on 17 September 2009 and was purchased by HPF Properties (Pty) Limited for R120.</p> <p>Vexicure was a dormant entity on acquisition date and commenced trading on 13 May 2011 as the tenant for the Westin Cape Town hotel. Ninety-five percent of the shareholding in Vexicure was sold to Pan-African Capital Holdings (Pty) Limited on 13 May 2011.</p>   |               |               |                  |                  |

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 7. INVESTMENT IN ASSOCIATE continued

| Summary of Vexicure (Pty) Limited's statement of financial position          | 2011<br>R'000  | 2010<br>R'000 |
|--|----------------|---------------|
| <b>ASSETS</b>  |                |               |
| Non-current assets   | 469            | –             |
| Current assets   | 28 640         | 120           |
| <b>Total assets</b>  | <b>29 109</b>  | <b>120</b>    |
| <b>EQUITIES AND LIABILITIES</b>  |                |               |
| Capital and reserves   | (1 206)        | 120           |
| Non-current liabilities  | –              | –             |
| Current liabilities  | 30 315         | –             |
| <b>Total equities and liabilities</b>  | <b>29 109</b>  | <b>120</b>    |
| <b>Summary of Vexicure (Pty) Limited's statement of comprehensive income</b> |                |               |
| Revenue  | 20 067         | –             |
| Gross profit   | 17 018         | –             |
| Total operating expenditure  | (13 736)       | –             |
| Rental to HPF Properties (Pty) Limited                                       | (4 958)        | –             |
| Taxation   | 469            | –             |
| <b>Total comprehensive loss for the period</b>                               | <b>(1 207)</b> | <b>–</b>      |
| Loss attributable to the HPF group   | (60)           | –             |

|  | GROUP         |               | COMPANY       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>8. TRADE AND OTHER RECEIVABLES</b>  |               |               |               |               |
| Trade receivables  | 37 174        | 26 406        | 47            | 69            |
| Pre-payments   | 239           | 168           | 183           | 154           |
| <b>Trade and other receivables</b>   | <b>37 413</b> | <b>26 574</b> | <b>230</b>    | <b>223</b>    |
| Financial assets   | 37 174        | 26 406        | 47            | 69            |
| Non-financial assets   | 239           | 168           | 183           | 154           |
| <b>9. PROPERTIES HELD FOR TRADING</b>  |               |               |               |               |
| Properties acquired and held for trading<br>Comprises land held for trading at the Arabella Hotel and Spa estate in Kleinmond. | 16 940        | –             | –             | –             |
| <b>10. CASH AND CASH EQUIVALENTS</b>   |               |               |               |               |
| Comprises bank balances of current and call accounts   | 3 550         | 10 710        | 173           | 116           |
| The Fund has an unutilised facility of R20,3 million with Absa, and R195,2 million with Nedbank.                               |               |               |               |               |

|   | GROUP          |                | COMPANY        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2011<br>R'000  | 2010<br>R'000  | 2011<br>R'000  | 2010<br>R'000  |
| <b>II. SHARE CAPITAL AND SHARE PREMIUM</b>  |                |                |                |                |
| <b>Share capital</b>  |                |                |                |                |
| <b>Authorised</b>   |                |                |                |                |
| 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             |
| <b>Issued</b>   |                |                |                |                |
| A shares – 88 761 391 (2010: 63 112 101) ordinary shares of R0,0001 each  | 8,9            | 6,3            | 8,9            | 6,3            |
| B shares – 88 761 391 (2010: 63 112 101) ordinary shares of R0,0001 each  | 8,9            | 6,3            | 8,9            | 6,3            |
|   | 17,8           | 12,6           | 17,8           | 12,6           |
| <b>Reconciliation of the number of shares in issue</b>  |                |                |                |                |
| <b>Opening balance</b>  |                |                |                |                |
| A shares  | 63 112         | 61 591         | 63 112         | 61 591         |
| B shares  | 63 112         | 61 591         | 63 112         | 61 591         |
|   | 126 224        | 123 182        | 126 224        | 123 182        |
| <b>Issued during the year</b>   |                |                |                |                |
| A shares  | 25 649         | 1 521          | 25 649         | 1 521          |
| B shares  | 25 649         | 1 521          | 25 649         | 1 521          |
|   | 51 298         | 3 042          | 51 298         | 3 042          |
| <b>Closing balance</b>  |                |                |                |                |
| A shares  | 88 761         | 63 112         | 88 761         | 63 112         |
| B shares  | 88 761         | 63 112         | 88 761         | 63 112         |
|   | 177 522        | 126 224        | 177 522        | 126 224        |
| Each share is linked to a debenture, which together form a linked unit.   |                |                |                |                |
| 10% of the unissued shares are under the control of the directors of the company subject to the provisions of the Companies Act, as amended, and the requirements of the JSE Limited. |                |                |                |                |
| <b>Share premium</b>  |                |                |                |                |
| Balance at beginning of year  | 259 182        | 246 951        | 259 182        | 246 951        |
| Premium on share issue  | 95 551         | 12 411         | 95 551         | 12 411         |
| Share issue expenses  | (11 889)       | (180)          | (11 889)       | (180)          |
| Balance at end of year  | 342 844        | 259 182        | 342 844        | 259 182        |
| <b>Share capital and share premium</b>  | <b>342 862</b> | <b>259 195</b> | <b>342 862</b> | <b>259 182</b> |

## Notes to the annual financial statements continued

For the year ended 30 June 2011

|   | GROUP            |                  | COMPANY          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2011<br>R'000    | 2010<br>R'000    | 2011<br>R'000    | 2010<br>R'000    |
| <b>12. FAIR VALUE RESERVE</b>   |                  |                  |                  |                  |
| Fair valuation of investment properties (net of deferred tax)   | 175 302          | 532 758          | 750 952          | –                |
| Fair valuation of interest rate swap  | (135 282)        | (124 757)        | (70 455)         | –                |
| Fair valuation of contingent consideration  | 30 555           | (2 287)          | –                | –                |
|   | <b>70 575</b>    | <b>405 714</b>   | <b>680 497</b>   | <b>–</b>         |
| The non-distributable reserve encompasses all adjustments to the fair values of investment properties and financial instrument. |                  |                  |                  |                  |
| <b>13. DEBENTURES</b>   |                  |                  |                  |                  |
| <b>Issued</b>   | <b>1 668 714</b> | <b>1 186 507</b> | <b>1 668 714</b> | <b>1 186 507</b> |
| A shares – 88 761 391 (2010: 63 112 101) debentures at R9,40 each   | 834 357          | 593 254          | 834 357          | 593 254          |
| B shares – 88 761 391 (2010: 63 112 101) debentures at R9,40 each   | 834 357          | 593 254          | 834 357          | 593 254          |

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 fifth anniversary of the date on which the special resolution was passed. 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 |      |
|---|-------------|----------------------|-----------|---------|------|
|   |             | 2011                 | 2010      | 2011    | 2010 |
| <b>14. INTEREST-BEARING LIABILITIES</b> |             |                      |           |         |      |
| <b>Absa Bank Limited</b>                |             | <b>Interest rate</b> |           |         |      |
| – Main loan 1                           | JIBAR+1,3%  | <b>822 000</b>       | 822 000   | –       | –    |
| – Main loan 2                           | Prime – 2%  | <b>71 000</b>        | 70 016    | –       | –    |
| – Floating                              | Prime – 2%  | <b>72 220</b>        | 52 613    | –       | –    |
| – Loan 1                                | JIBAR+1,45% | <b>50 000</b>        | 50 000    | –       | –    |
| – Loan 2                                | Prime –1,6% | <b>50 000</b>        | 50 000    | –       | –    |
| – Loan 3                                | JIBAR+1,85% | <b>50 000</b>        | 50 000    | –       | –    |
| – Loan 4                                | JIBAR+2,07% | <b>50 000</b>        | 50 000    | –       | –    |
| – Loan 5                                | JIBAR+2,1%  | <b>50 000</b>        | 50 000    | –       | –    |
| – Loan 6                                | JIBAR+2,8%  | <b>1 13 742</b>      | 1 13 742  | –       | –    |
|   |             | <b>1 328 962</b>     | 1 308 371 | –       | –    |
| <b>Nedbank Limited</b>                  |             |                      |           |         |      |
| – Loan 1                                | JIBAR+2,9%  | <b>176 303</b>       | –         | –       | –    |
| – Loan 2                                | JIBAR+2,9%  | <b>235 077</b>       | –         | –       | –    |
|   |             | <b>411 380</b>       | –         | –       | –    |
|   |             | <b>1 740 342</b>     | 1 308 371 | –       | –    |

The Absa loans are classified as current liabilities as they are repayable on 10 February 2012. The loans are secured in terms of a first mortgage bond over investment properties with a market value of R2,7 billion and a cession of leases and rentals in respect of bonded properties.

The proceeds from the increased borrowings from Absa over the 2011 financial year was utilised to fund refurbishments and capital expenditure.

The Nedbank loans are payable in 2016 and are secured in terms of a first mortgage bond over investment properties, valued at R1,2 billion and a cession of leases and rentals in respect of bonded parties.

The proceeds from the Nedbank borrowings over the year was utilised to fund the acquisition of the Arabella Portfolio, as well as refurbishments and capital expenditure.

## Notes to the annual financial statements continued

For the year ended 30 June 2011

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.

|  | GROUP         |                        |                        | COMPANY       |               |
|--|---------------|------------------------|------------------------|---------------|---------------|
|  | 2011<br>R'000 | 2010 restated<br>R'000 | 2009 restated<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>15. DEFERRED TAXATION LIABILITY</b>         |               |                        |                        |               |               |
| Balance at beginning of year                   | 87 113        | 122 537                | 186 823                | –             | –             |
| Taxation raised on business combination        | 21 949        | –                      | –                      | –             | –             |
| Restatement due to IAS 12 amendment            | –             | –                      | (92 933)               | –             | –             |
| Movement in profit and loss                    | (58 195)      | (35 424)               | 28 647                 | –             | –             |
| <b>Balance at end of year</b>                  | <b>50 867</b> | <b>87 113</b>          | <b>122 537</b>         | <b>–</b>      | <b>–</b>      |
| <i>Comprising:</i>                             |               |                        |                        |               |               |
| Fair value adjustment to investment properties | 50 867        | 87 113                 | 122 537                | –             | –             |

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.

### *Change in accounting policy*

The group has early adopted the amendments to IAS 12 (the 2010 amendment) as published by the IASB on 20 December 2010. It is only required for companies to adopt this policy for years commencing on or after 1 January 2012. The effect of this early adoption is that deferred tax on investment properties is no longer calculated at a blended rate, which comprises the split between the land and the buildings. Deferred tax on buildings was previously measured at 28%, whereas for land it was measured at 14%. The effect of the amendment to IAS 12 on the measurement of deferred tax is that both land and buildings classified as investment property are now measured and recognised at 14%. This is due to the rebuttable presumption that the carrying value of the investment property will now be recovered entirely through sale. Distributions per unit is not affected by the amendment to IAS 12.

This has the effect of a lower deferred tax charge on upward revaluation of investment property in profit and loss.

|  | GROUP         |                            |
|--|---------------|----------------------------|
|  | 2010<br>R'000 | 2009<br>and prior<br>R'000 |
| <b>Effect on statement of financial position</b>       |               |                            |
| <b>Deferred tax</b>                                    |               |                            |
| Balance as originally stated                           | 171 045       | 241 712                    |
| Restated balance after the IAS 12 amendment            | (87 113)      | (122 537)                  |
| Impact of change in accounting policy                  | 83 932        | 119 175                    |
| <b>Non-distributable reserve</b>                       |               |                            |
| Balance as originally stated                           | 321 782       | 561 323                    |
| Restated balance after IAS 12 amendment                | (405 714)     | (680 498)                  |
| Impact of change in accounting policy                  | (83 932)      | (119 175)                  |
| <b>Effect on the statement of comprehensive income</b> |               |                            |
| <b>Taxation</b>  |               |                            |
| As originally stated                                   | 70 667        | (241 712)                  |
| Restated as per IAS 12 amendment                       | (35 424)      | 122 537                    |
| Impact of change in accounting policy                  | 35 243        | (119 175)                  |

|   | GROUP         |               | COMPANY       |               |
|---|---------------|---------------|---------------|---------------|
|   | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>16. TRADE AND OTHER PAYABLES</b>                             |               |               |               |               |
| Trade payables  | 60 437        | 22 195        | 1 046         | 903           |
| Tenant deposits   | 1 191         | 13 759        | –             | –             |
| VAT payable   | 1 629         | 2 402         |               |               |
|   | <b>63 257</b> | <b>38 356</b> | <b>1 046</b>  | <b>903</b>    |
| Financial liabilities   | 61 628        | 35 954        | 1 046         | 903           |
| Non-financial liabilities                                       | 1 629         | 2 402         | –             | –             |
| <b>17. OPERATING PROFIT/(LOSS)</b>                              |               |               |               |               |
| Operating profit/(loss) is stated after charging the following: |               |               |               |               |
| Auditors' remuneration  |               |               |               |               |
| – Audit fee   | 1 059         | 608           | 93            | 85            |
| Bad debts   | –             | 6 413         | –             | –             |
| Directors' emoluments (refer note 17.1)                         | 1 450         | 1 346         | 1 450         | 1 346         |
| Defined contribution plan expense                               | 229           | 123           | –             | –             |
| Employee remuneration   | 8 432         | 4 046         | –             | –             |
| Management fee  | 215           | 11 651        | 1 740         | 1 559         |

Property and other expenses were incurred to generate rental income.

#### 17.1 Directors' and officers emoluments

Fees for services as directors and members of sub-committees

Group and company – 30 June 2011

|                        | Directors'<br>fees<br>R'000 | Consulting<br>fees<br>R'000 | Total<br>R'000 |
|------------------------|-----------------------------|-----------------------------|----------------|
| <b>Non-executive</b>   |                             |                             |                |
| F Berkeley (Chairman)  | 196                         | –                           | 196            |
| Y Aminzadeh            | 166                         | –                           | 166            |
| KH Abdul-Karrim        | 246                         | –                           | 246            |
| ZN Kubukeli            | 190                         | –                           | 190            |
| MB Madumise            | 204                         | –                           | 204            |
| W Midgley <sup>#</sup> | 177                         | 2 686                       | 2 863          |
| WC Ross                | 271                         | –                           | 271            |
|                        | <b>1 450</b>                | <b>2 686</b>                | <b>4 136</b>   |

<sup>#</sup> An amount of R1 293 620 was paid directly to Mr Midgley, R540 543 was paid to MHA Attorneys and R851 498 was paid to Cliffe Dekker Hofmeyr of which Mr Midgley was/is a director but not a shareholder.

**Executive:** All directors' salaries and bonuses were borne by the group.

|           | Directors'<br>fees<br>R'000 | Salaries<br>R'000 | Bonuses<br>R'000 | Total<br>R'000 |
|-----------|-----------------------------|-------------------|------------------|----------------|
| R Asmal   | –                           | 1 172             | 387              | 1 559          |
| GA Nelson | –                           | 2 081             | 741              | 2 822          |
| AS Rogers | –                           | 1 747             | 534              | 2 281          |
|           | –                           | 5 000             | 1 662            | 6 662          |

All the above directors' emoluments are short-term employee benefits and there are no other employee benefits to the directors.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 17. OPERATING PROFIT/(LOSS) continued

### 17.1 Directors' and officers emoluments

Group and company – 30 June 2010

| Non-executive                    | Directors fees<br>R'000 | Consulting<br>fees<br>R'000 | Total<br>R'000 |
|----------------------------------|-------------------------|-----------------------------|----------------|
| F Berkeley (Chairman)            | 40                      | –                           | 40             |
| TE Sewell (resigned 19 May 2010) | 264                     | –                           | 264            |
| KH Abdul-Karrim                  | 211                     | –                           | 211            |
| ZN Kubukeli                      | 176                     | –                           | 176            |
| BM Madumise                      | 149                     | –                           | 149            |
| W Midgley <sup>#</sup>           | 188                     | 954                         | 1 142          |
| WC Ross                          | 318                     | –                           | 318            |
|                                  | 1 346                   | 954                         | 2 300          |

<sup>#</sup> An amount of R63 000 was paid directly to Mr Midgley as consulting fees and the remaining R891 000 was paid to MHA Attorneys of which Mr Midgley is a director but not a shareholder.

Executive remuneration packages were borne by Hospitality Property Fund Managers (Pty) Limited for the period 1 July to 30 November 2009. Effective 1 December 2009 the management company was internalised and for the seven months from 1 December 2009 to 30 June 2010 the salaries and bonuses were paid by the group.

|           | Director's fees<br>R'000 | Salaries<br>R'00 | Bonuses<br>R'000 | Total<br>R'000 |
|-----------|--------------------------|------------------|------------------|----------------|
| R Asmal   | –                        | 1 095            | 174              | 1 269          |
| GA Nelson | –                        | 1 909            | 194              | 2 103          |
| AS Rogers | –                        | 1 633            | 270              | 1 903          |
|           | –                        | 4 637            | 638              | 5 275          |

All the above directors' emoluments are short-term employee benefits and there are no other employee benefits to the directors.

|                                    | GROUP         |               | COMPANY       |               |
|------------------------------------|---------------|---------------|---------------|---------------|
|                                    | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>18. NET FINANCE COST/INCOME</b> |               |               |               |               |
| <b>Finance income</b>              |               |               |               |               |
| Interest accrued                   | 13 366        | 2 023         | 10            | 10            |
| Subsidiary companies               | –             | –             | 147 707       | 132 007       |
|                                    | 13 366        | 2 023         | 147 717       | 132 017       |
| <b>Finance costs</b>               |               |               |               |               |
| Interest-bearing liabilities       | 126 223       | 110 616       | –             | –             |

|  | GROUP         |               | COMPANY       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>19. RECOUPMENT OF DEBENTURE INTEREST</b>  |               |               |               |               |
| Recoupment of debenture interest   | 17 534        | 1 194         | 17 534        | 1 194         |
| 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>20. TAXATION</b>  |               |               |               |               |
| Deferred taxation expense  | (58 195)      | (35 424)      | –             | –             |
| 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          | –             | –             |
| Fair valuation of investment property (%)  | (21,6)        | (11,4)        | –             | –             |
| Fair valuation of contingent consideration (%)   | 3,4           | (0,2)         | –             | –             |
| Fair valuation of swaps (%)  | (1,1)         | (4,9)         | –             | –             |
| Gain on bargain purchase price (%)   | 14,7          | 0,1           | –             | –             |
| Transaction costs (%)  | (1,7)         | (0,2)         | –             | –             |
| Effective taxation rate (%)  | 21,7          | 11,4          | –             | –             |

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

## 21. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT

|  | GROUP         |                    | GROUP         |                    |
|--|---------------|--------------------|---------------|--------------------|
|  | 2011<br>Gross | 2011<br>Net of tax | 2010<br>Gross | 2010<br>Net of tax |
| <b>Loss for the year</b>                       | (210 720)     | (210 720)          | (276 464)     | (276 464)          |
| <i>Adjustments:</i> Debenture interest         | 160 669       | 160 669            | 127 732       | 127 732            |
| <b>Earnings (linked units)</b>                 | (50 051)      | (50 051)           | (148 732)     | (148 732)          |
| <i>Adjustments:</i>                            |               |                    |               |                    |
| Gain on bargain purchase                       | (141 437)     | (141 437)          | (587)         | (587)              |
| Equity accounted loss from associate after tax | 60            | 60                 |               |                    |
| Fair value – investment properties revaluation | 415 651       | 357 456            | 253 618       | 218 194            |
| Fair value – straight-line rental income       | 315           | 315                | (352)         | (352)              |
| <b>Headline earnings (linked units)</b>        | 224 538       | 166 343            | 103 947       | 68 523             |
| Fair value – interest rate swaps               | 10 525        | 10 525             | 54 302        | 54 302             |
| Transaction costs on business combinations     | 16 958        | 16 958             | 2 268         | 2 268              |
| Contingent consideration                       | (32 842)      | (32 842)           | 2 287         | 2 287              |
| Straight-line rental income                    | (315)         | (315)              | 352           | 352                |
| <b>Distributable earnings</b>                  | 218 864       | 160 669            | 163 156       | 127 732            |

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 21. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT continued

|   | 2011       |            |          | 2010 (restated) |            |          |
|---|------------|------------|----------|-----------------|------------|----------|
|   | A units    | B units    | Total    | A units         | B units    | Total    |
| Number of units (notes 11 and 13)         | 88 761 391 | 88 761 391 |          | 63 112 101      | 63 112 101 |          |
| Weighted average number of units          | 80 462 949 | 80 462 949 |          | 62 474 525      | 62 474 525 |          |
| <b>Group</b>                              |            |            |          |                 |            |          |
| Distribution per linked unit (cents)      | 122,11     | 58,90      | 181,01   | 116,30          | 87,98      | 204,28   |
| Loss per linked unit (cents)              | (31,10)    | (31,10)    | (62,20)  | (119,03)        | (119,03)   | (238,07) |
| Headline earnings per linked unit (cents) | 103,36     | 103,36     | 206,73   | 54,84           | 54,84      | 109,68   |
| Loss per share (cents)                    | (130,94)   | (130,94)   | (261,88) | (221,26)        | (221,26)   | (442,52) |

|   | GROUP         |               | COMPANY       |               |
|---|---------------|---------------|---------------|---------------|
|   | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>22. CASH GENERATED FROM/UTILISED IN OPERATIONS</b> |               |               |               |               |
| Loss before taxation                                  | (268 855)     | (311 888)     | –             | –             |
| <i>Adjusted for:</i>                                  |               |               |               |               |
| Net finance costs                                     | 112 857       | 108 593       | (147 717)     | (132 017)     |
| Net debenture interest                                | 143 135       | 127 732       | 143 135       | 127 732       |
| Depreciation  | 240           | 163           | –             | –             |
| Straight-lining accrual of rental income              | (315)         | 352           | –             | –             |
| Gain on bargain purchase                              | (141 437)     | (587)         | –             | –             |
| Fair-value adjustments                                | 393 649       | 309 855       | –             | –             |
| Cash generated before working capital changes         | 239 274       | 234 220       | (4 582)       | (4 285)       |
| Changes in working capital                            | 14 060        | (37 542)      | 136           | 12            |
| Increase in trade and other receivables               | (10 841)      | (23 783)      | (7)           | (55)          |
| Increase/(Decrease) in trade and other payables       | 24 901        | (13 759)      | 143           | 67            |
|   | 253 334       | 196 678       | (4 446)       | (4 273)       |
| <b>23. DISTRIBUTION TO UNITHOLDERS</b>                |               |               |               |               |
| Balance at beginning of year                          | 69 752        | 71 847        | 69 752        | 71 847        |
| Amount per statement of comprehensive income          | 143 135       | 127 732       | 143 135       | 127 732       |
| Recoupment of distribution                            | 22 639        | –             | 22 639        | –             |
| Balance at end of year                                | (72 993)      | (69 752)      | (72 993)      | (69 752)      |
|   | 162 533       | 129 827       | 162 533       | 129 827       |

|  | GROUP         |               | COMPANY       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>24. ACQUISITION AND DEVELOPMENT OF INVESTMENT PROPERTIES</b>  |               |               |               |               |
| Balance at beginning of year   | 3 317 870     | 3 404 252     | –             | –             |
| Fair value adjustments   | (415 651)     | (253 618)     | –             | –             |
| Acquisition of investment property at fair value   | –             | 110 400       | –             | –             |
| Bargain purchase price including deferred taxation   | 163 387       | 587           | –             | –             |
| Vendors for property acquisition   | (110 400)     | –             | –             | –             |
| Balance at end of year   | (3 955 730)   | (3 317 870)   | –             | –             |
|  | (1 000 524)   | (56 249)      | –             | –             |
| <b>25. CAPITAL COMMITMENTS</b>   |               |               |               |               |
| Authorised and committed   | 51 602        | 41 900        | –             | –             |
| The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.  |               |               |               |               |
| <b>26. 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   | 251 186       | 202 054       | –             | –             |
| Between one and five years   | 878 877       | 734 303       | –             | –             |
| After five years   | 1 047 873     | 277 415       | –             | –             |
|  | 2 177 936     | 1 213 772     | –             | –             |

# Notes to the annual financial statements continued

For the year ended 30 June 2011

|  | GROUP          |               | COMPANY       |               |
|--|----------------|---------------|---------------|---------------|
|  | 2011<br>R'000  | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>27. RELATED PARTY TRANSACTIONS</b>  |                |               |               |               |
| The following transactions were carried out with related parties during the current and prior year:  |                |               |               |               |
| <b>Hospitality Property Fund Managers (Pty) Limited (Manco) – Fund and asset manager*</b>  |                |               |               |               |
| (transactions between 1 July 2009 to 30 November 2009 prior to Manco internalisation)  |                |               |               |               |
| Shareholders: Grapnel Property Asset Managers (Pty) Limited (Grapnel) (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (48%) |                |               |               |               |
| Management fee paid by group   | –              | 11 460        | –             | 653           |
| Relationship – Directors of Fund had previous indirect interests in Manco through their shareholdings in Grapnel and HTLAM                             |                |               |               |               |
| <b>Majormatic 194 (Pty) Limited (C-Corp) – Hotel operating company *</b>   |                |               |               |               |
| (Shareholders: Grapnel (52%) and HTLAM (48%))  |                |               |               |               |
| Rental received by group   | <b>102 562</b> | 117 451       | –             | –             |
| Trade and other receivables  | <b>9 130</b>   | 13 604        | –             | –             |
| Tenant deposit held as security on leases  | –              | (7 187)       | –             | –             |
| Relationship – Directors of Fund have indirect interest in C-Corp through their shareholding in Grapnel and HTLAM                                      |                |               |               |               |
| <b>Extrabold Hotel Management Company (Pty) Limited – Hotel management company*</b>  |                |               |               |               |
| (Shareholders: Grapnel (52%) and HTLAM (48%))  |                |               |               |               |
| Management fee paid by hotels  | <b>13 082</b>  | 12 538        |               |               |
| Reimbursement of sales team costs  | <b>337</b>     | 1 395         |               |               |
| Trade and other payables   | –              | 3 338         |               |               |
| Relationship – Directors of Fund have indirect interest in Extrabold through their shareholding in Grapnel and HTLAM.                                  |                |               |               |               |

|   | GROUP          |               | COMPANY       |               |
|---|----------------|---------------|---------------|---------------|
|   | 2011<br>R'000  | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| <b>27. RELATED PARTY TRANSACTIONS</b> <i>continued</i>  |                |               |               |               |
| During the 2011 financial year, Grapnel disposed of its interest in Extrabold and Majormatic 194. Mr Gerald Nelson therefore has no further direct or indirect interest in Extrabold or Majormatic 194. |                |               |               |               |
| <b>Internalisation of Management Company*</b><br>(transaction effected on 1 December 2009)  |                |               |               |               |
| Related parties: Grapnel Property Asset Managers (Pty) Limited (Grapnel) (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (48%)   |                |               |               |               |
| Upfront purchase price on acquisition of shares in Manco  | –              | 123 007       | –             | –             |
| Contingent consideration on acquisition of shares in Manco  | –              | 32 842        | –             | –             |
| Relationship – Directors of Fund have indirect interest in entities from whom shares were purchased.  |                |               |               |               |
| <i>* Mr Aminzadeh has an indirect interest in the above companies via his shareholdings in HTLAM.</i>   |                |               |               |               |
| <b>Vexicure (Pty) Limited**</b>   |                |               |               |               |
| Related parties: Pan-African Capital Holdings (Pty) Limited (95%)   |                |               |               |               |
| Rental received by group  | <b>4 958</b>   | –             | –             | –             |
| Trade and other payables  | <b>(6 602)</b> | –             | –             | –             |
| Tenant deposit and guarantee held as security on leases   | <b>3 074</b>   | –             | –             | –             |
| Relationship – Director of Fund has indirect interest in Vexicure (Pty) Limited through his directorship at Pan-African Capital Holdings (Pty) Limited  |                |               |               |               |
| <i>** Mr Kubukeli has an indirect interest in Vexicure via his shareholding and directorship in Pan-African Capital Holdings (Pty) Limited.</i>   |                |               |               |               |

# Notes to the annual financial statements continued

For the year ended 30 June 2011

|  | GROUP         |               | COMPANY        |               |
|--|---------------|---------------|----------------|---------------|
|  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000  | 2010<br>R'000 |
| <b>27. RELATED PARTY TRANSACTIONS</b> <i>continued</i>   |               |               |                |               |
| <b>HPF Properties (Pty) Limited</b>  |               |               |                |               |
| Related parties: wholly-owned subsidiary of Hospitality Property Fund Limited                                      |               |               |                |               |
| Interest received  | –             | –             | <b>147 717</b> | 132 017       |
| <b>HPF Management (Pty) Limited</b>  |               |               |                |               |
| Related parties: Hospitality Property Fund Limited is the ultimate holding company of HPF Management (Pty) Limited |               |               |                |               |
| Management fees  | –             | –             | <b>1 740</b>   | 1 559         |
| All transactions were on an arm's length basis.  |               |               |                |               |
| Key management include the directors whose remuneration is included in note 17.                                    |               |               |                |               |

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

Financial instruments consist mainly of deposits with banks, loans to the subsidiary companies, 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 arise 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 entity's financing structure are market risk (in the form of interest rate risk) and liquidity risk. The policies for managing each of these risks and the principal effect of these policies on the results for the year are summarised below:

#### 28.1 Interest rate risk

In terms of the Absa debt facility, 80% of the liability is required to be fixed. The facility for Nedbank does not have any requirements to fix interest rates. The audit and risk committee continuously monitors the Fund's exposure to interest rate volatility and should rates be fixed, this decision will be taken by the audit and risk committee. Short-term debtors and creditors are not exposed to interest rate risk. As a consequence, the entity is exposed to market 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 as per the entity's policy, 60% to 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<br>fixed rate | Commence-<br>ment date | Maturity | Fair value at<br>30 June 2011<br>R'000 | Fair value at<br>30 June 2010<br>R'000 |
|------------------|----------------------|------------------------|----------|--|--|
| R346,67 million  | 8,72%                | June 10                | June 13  | (6 190)                                | (2 798)                                |
| R346,67 million  | 9,05%                | June 10                | June 14  | (7 360)                                | (3 828)                                |
| R346,67 million  | 9,28%                | June 10                | June 15  | (7 992)                                | (4 388)                                |
| R1 040,1 million |                      |                        |          | (21 542)                               | (11 014)                               |

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

#### *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 R13,98 million (2010: R17,95 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 R13,98 million (2010: R17,95 million) in the fair value of derivatives. Movements in the fair value of derivatives are recognised in profit or loss. The analysis is performed on the same basis for 2010.

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

In terms of the floating facilities and the interest swaps each increase/decrease of 50 basis points in the interest rate, this change would affect interest paid by R3,5 million (2010: R1,3 million) per annum. The floating rate sensitivity analysis has been prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. The analysis was performed on the same basis for 2010.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

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

### 28.2 Liquidity risk

Liquidity risk is the risk that the entity 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 entity'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 entity seeks to borrow for as long as possible at the lowest acceptable cost.

The entity 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<br>amount<br>R'000 | 0 – 12<br>months<br>R'000 | 1 – 4<br>years<br>R'000 | More than<br>4 years<br>R'000 |
|------------------------------|-----------------------------|---------------------------|-------------------------|-------------------------------|
| <b>Group 30 June 2011</b>    |                             |                           |                         |                               |
| Interest-bearing liabilities | 1 740 342                   | 1 328 962                 | –                       | 411 380                       |
| Derivative liability         | 21 542                      | –                         | 21 542                  | –                             |
| Trade and other payables     | 63 257                      | 63 257                    | –                       | –                             |
| Debentures                   | 1 668 714                   | –                         | –                       | 1 668 714                     |
| Debenture interest payable   | 72 993                      | 72 993                    | –                       | –                             |
|                              | <b>3 566 848</b>            | <b>1 465 212</b>          | <b>21 542</b>           | <b>2 080 094</b>              |
| <b>Group 30 June 2010</b>    |                             |                           |                         |                               |
| Interest-bearing liabilities | 1 308 371                   | –                         | 1 308 371               | –                             |
| Derivative liability         | 11 014                      | 12 234                    | 989                     | (2 209)                       |
| Trade and other payables     | 38 356                      | 38 356                    | –                       | –                             |
| Debentures                   | 1 186 507                   | –                         | –                       | 1 186 507                     |
| Debenture interest payable   | 69 752                      | 69 752                    | –                       | –                             |
|                              | <b>2 614 000</b>            | <b>120 342</b>            | <b>1 309 360</b>        | <b>1 184 298</b>              |
| <b>Company 30 June 2011</b>  |                             |                           |                         |                               |
| Trade and other payables     | 1 046                       | 1 046                     | –                       | –                             |
| Debentures                   | 1 668 714                   | –                         | –                       | 1 668 714                     |
| Debenture interest payable   | 72 993                      | 72 993                    | –                       | –                             |
|                              | <b>1 742 753</b>            | <b>74 039</b>             | <b>–</b>                | <b>1 668 714</b>              |
| <b>Company 30 June 2010</b>  |                             |                           |                         |                               |
| Trade and other payables     | 903                         | 903                       | –                       | –                             |
| Debentures                   | 1 186 507                   | –                         | –                       | 1 186 507                     |
| Debenture interest payable   | 69 752                      | 69 752                    | –                       | –                             |
|                              | <b>1 257 162</b>            | <b>70 655</b>             | <b>–</b>                | <b>1 186 507</b>              |

It is not expected that the cash flows from the above instruments would occur significantly earlier than presented.

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

|  | 30 June 2011<br>R'000 | 30 June 2010<br>R'000 |
|--|-----------------------|-----------------------|
| <b>28. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES</b>  |                       |                       |
| <i>continued</i>   |                       |                       |
| <b>28.2 Liquidity risk</b> <i>continued</i>  |                       |                       |
| The company's utilised borrowing capacity at 30 June can be summarised as follows: |                       |                       |
| Property valuation   | <b>3 955 730</b>      | 3 317 870             |
| 65% thereof  | <b>2 571 224</b>      | 2 156 616             |
| Effective borrowings   | <b>1 740 342</b>      | 1 308 371             |
| Unutilised borrowing capacity  | <b>830 882</b>        | 848 245               |
| Facilities available in terms of agreements at 30 June                             | <b>1 974 550</b>      | 1 368 000             |
| Undrawn facilities   | <b>215 496</b>        | 59 629                |
| Gearing ratio (%)  | <b>44,0</b>           | 39,4                  |

### 28.3 Credit risk

Credit risk arises from the risk that trade receivables may default and result in a loss to the entity. The entity 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 entity 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.

#### 28.3.1 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       |               |
|----------------------------------|---------------|---------------|---------------|---------------|
|                                  | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| Trade and other receivables      |               |               |               |               |
| – Tenant and related receivables | <b>37 174</b> | 26 406        | –             | –             |
| – Other receivables              | <b>239</b>    | 168           | <b>183</b>    | 223           |
|                                  | <b>37 413</b> | 26 574        | <b>183</b>    | 223           |
| Tenant deposits                  | <b>1 191</b>  | (13 759)      | –             | –             |
| Bank guarantees                  | <b>47 433</b> | (700)         | –             | –             |

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 the financial assets have a low credit risk.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

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

### 28.3 Credit risk continued

#### 28.3.2 Impairment losses

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

|   | GROUP                                 |                                       | GROUP                       |                             |
|---|---------------------------------------|---------------------------------------|-----------------------------|-----------------------------|
|   | Gross carrying value<br>2011<br>R'000 | Gross carrying value<br>2010<br>R'000 | Impairment<br>2011<br>R'000 | Impairment<br>2010<br>R'000 |
| Current (< 30 days)                       | 32 500                                | 26 406                                | –                           | –                           |
| Past due but not yet impaired (> 30 days) | 2 855                                 | –                                     | –                           | –                           |
| Past due but not yet impaired (> 60 days) | 2 058                                 | –                                     | –                           | –                           |
| <b>Total</b>                              | <b>37 413</b>                         | <b>26 406</b>                         | <b>–</b>                    | <b>–</b>                    |

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

|                                      | GROUP         |               |
|--------------------------------------|---------------|---------------|
|                                      | 2011<br>R'000 | 2010<br>R'000 |
| Balance at the beginning of the year | –             | –             |
| Impairment loss recognised           | –             | –             |
| Balance at the end of the year       | –             | –             |

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

### 28.4 Capital structure

The entity views its capital base as the sum of its shares and debentures as each share is linked to a debenture. The entity 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 entity 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 entity's borrowings are limited by its articles of association to 65% of assets, the current strategy is to maintain debt levels below 50%.

During the year, the underlying debt to assets ratio increased from 39,4% to 44,0% at 30 June 2011.

### 28.5 Carrying values and 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 statement of financial position. The total carrying value of financial liabilities held for trading by the group is R21,5 million (2010: R11,01 million). The company has no financial liabilities held for trading. The total carrying value of loans and receivables at amortised cost held by the group is R37,4 million (2010: R37,1 million) and of those held by the company is R2 085 million (2010: R1 516 million). The total carrying value of financial liabilities at amortised cost held by the group is R3 545 million (2010: R2 601 million) and of those held by the company is R1 743 million (2010: R1 257 million). 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.

28. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *continued*

28.5 *Carrying values and fair values of financial instruments continued*

*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.

*Fair value hierarchy*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|                                  | Level 1 | Level 2 | Level 3 | Total  |
|----------------------------------|---------|---------|---------|--------|
| <b>30 June 2011</b>              |         |         |         |        |
| Derivative financial assets      | –       | –       | –       | –      |
| Derivative financial liabilities | –       | 21 542  | –       | 21 542 |
|                                  | –       | 21 542  | –       | 21 542 |
| <b>30 June 2010</b>              |         |         |         |        |
| Derivative financial assets      | –       | –       | –       | –      |
| Derivative financial liabilities | –       | 11 014  | –       | 11 014 |
|                                  | –       | 11 014  | –       | 11 014 |

There were no defaults on loans payable by group during the year.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 29. CONTINGENT CONSIDERATION

The contingent consideration was raised as a result of the internalisation of management on 1 December 2009, when the group acquired 100% of Hospitality Property Fund Managers (Pty) Limited. The contingent consideration was part of the purchase price for the shareholding in Hospitality Property Fund Managers (Pty) Limited, refer below.

### Purchase price

The purchase price is an amount equivalent to the average of the 30 June 2009, 2010, 2011 and 2012 values of Manco. The values of Manco for each of the years is calculated by taking the net profit after tax cash flows from Manco's operation for each of the years escalated by the CPI for a six-year forecast period and discounting the forecast cash flows by the average yield of Hospitality over the previous 12 months, subject to a minimum price of R123 million and a maximum price of R180 million escalated by CPI between the effective date and 30 June 2012.

The minimum price was discharged in December 2009 and the balance of the purchase price will be paid to the sellers in cash or in linked units, at Hospitality's election, within 30 days of the issue of the audited financial statements of Hospitality for the 12 months ended 30 June 2012.

The group initially included an amount of R30,5 million as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying a DCF valuation based on the criteria specified above. This amount was revalued at 30 June 2011 and resulted in the fair value of the contingent consideration decreasing to R nil (2010: R32,8 million).

|                                 | 2011<br>R'000 | 2010<br>R'000 |
|---------------------------------|---------------|---------------|
| Opening balance                 | 32 842        | –             |
| Contingent consideration raised | –             | 30 555        |
| Fair value adjustment           | (32 842)      | 2 287         |
| <b>Closing balance</b>          | <b>–</b>      | <b>32 842</b> |

### 30. BUSINESS COMBINATIONS

#### *Acquisition of the Arabella portfolio*

On 13 May 2011, the group obtained control of two 5-star hotels known as Arabella Western Cape Hotel and Spa and the Westin Grand, and the Paulaner Brauhaus Restaurant in the V&A Waterfront. This acquisition is in line with the group's objective of growing its investment portfolio in a controlled manner through the addition of quality assets which will further diversify the portfolio and which have a significant potential to enhance unitholder returns. The three properties were acquired as a going concern.

Since acquisition date, the group's revenue increased by an estimated R21,9 million and profits increased by an estimated R19,3 million as a direct result of the acquisition.

If the group acquired the Arabella hotels on 1 July 2010, the estimated consolidated revenue would have increased by an estimated R68,8 million and profits would have increased by an estimated R49,2 million.

The hotel was purchased for a total purchase consideration of R756 million. The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

|  | R'000     |
|--|-----------|
| <b>Consideration transferable:</b>                           |           |
| Cash to be paid on registration of property transfer         | 756 553   |
| <b>Identifiable assets acquired and liabilities assumed:</b> |           |
| Investment property at fair value                            | 903 000   |
| Property held for trading                                    | 16 940    |
| Total net identifiable assets                                | 919 940   |
| <b>Bargain on purchase consideration:</b>                    |           |
| Fair value of consideration transferred                      | 756 553   |
| Less: Value of identifiable assets                           | (919 940) |
| Add: Deferred taxation                                       | 21 950    |
| Bargain on purchase consideration                            | (141 437) |

The transaction resulted in a significant gain on acquisition as a result of limited purchasers being available in the market.

#### **Transactions separate from the acquisition**

The group incurred acquisition related costs of R17 million relating to legal fees, restructuring costs and press announcement costs which were expensed.

### 31. ACCOUNTING ESTIMATES AND JUDGEMENTS

The financial director discusses the selection, implementation, application and disclosure of critical accounting policies and estimates for the group with the audit committee.

In the application of these accounting policies, critical judgements may be required in the following:

- The discount and capitalisation rates used by independent valuers in the valuation of investment properties are affected by market conditions and the revision of these rates may affect the valuation of the properties significantly. The group uses an independent valuations specialist in the valuation of its portfolio.
- Judgement is used to determine the recoverability of tenant arrears. History and experience are applied in the determination as to whether a provision for doubtful debts should be raised for arrears.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 32. COUNCIL VALUATION DISPUTE

HPF Properties (Pty) Limited is currently disputing a council valuation that has been recently implemented at the Crowne Plaza Johannesburg – Rosebank and Holiday Inn Sandton – Rivonia Road properties. This valuation has resulted in the rates and taxes charged by the City of Johannesburg on these properties being inflated. The combined amount under dispute for both properties is R10,1 million which includes back-charges to 2009. This amount has not been provided for by the group.

## 33. OPERATING SEGMENTS

The group has four reportable segments, as described below. These segments offer different types of lease agreements and are managed separately to enable the Fund to adequately monitor the various risk profiles. For each of these products, the group's CEO reviews internal management reports on a monthly basis. The following summary describes each of the group's reportable segments:

- Fixed lease agreements – lease agreements where the major portion of the rental is fixed.
- F&V lease agreements – lease agreements comprise approximately 50% initial fixed lease rental, with the remainder being a variable rental equivalent to 90% to 98% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after deducting the fixed lease portion. Majomatic 194 is now part of the F&V lease agreements.
- Variable lease agreements – rentals are based on the EBITDA of the hotel.
- Head office – other operations include the Fund's administrative and finance costs.

The accounting policies of the reportable segments are the same as described in note 1.

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit before finance costs, as included in the internal management reports that are reviewed by the group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

|   | Fixed lease agreements<br>R'000 | F&V lease agreements<br>R'000 | Variable lease agreements<br>R'000 | Head office<br>R'000 | Total of all operating segments<br>R'000 |
|---|---------------------------------|-------------------------------|------------------------------------|----------------------|--|
| <b>Statement of comprehensive income – 30 June 2011</b> |                                 |                               |                                    |                      |  |
| Segment revenue   | 122 615                         | 139 348                       | 15 080                             | –                    | 277 043                                  |
| Expenditure   | –                               | –                             | –                                  | (21 051)             | (21 051)                                 |
| Segment results   | 122 615                         | 139 348                       | 15 080                             | (21 051)             | 255 992                                  |
| <b>Statement of comprehensive income – 30 June 2010</b> |                                 |                               |                                    |                      |  |
| Segment revenue   | 137 844                         | 119 315                       | 8 743                              | –                    | 265 902                                  |
| Expenditure   | (6 413)                         | –                             | –                                  | (23 164)             | (29 577)                                 |
| Segment results   | 131 431                         | 119 315                       | 8 743                              | (23 164)             | 236 325                                  |
| <b>Statement of financial position – 30 June 2011</b>   |                                 |                               |                                    |                      |  |
| <b>Non-current assets</b>                               |                                 |                               |                                    |                      |  |
| Investment properties                                   | 1 109 000                       | 2 593 930                     | 252 800                            | –                    | 3 955 730                                |
| <b>Current assets</b>                                   |                                 |                               |                                    |                      |  |
| Trade receivables                                       | 6 695                           | 8 801                         | (437)                              | 22 354               | 37 413                                   |
| Segment assets  | 1 115 695                       | 2 602 731                     | 252 363                            | 22 354               | 3 993 143                                |
| <b>Statement of financial position – 30 June 2010</b>   |                                 |                               |                                    |                      |  |
| <b>Non-current assets</b>                               |                                 |                               |                                    |                      |  |
| Investment properties                                   | 1 320 826                       | 1 691 744                     | 305 300                            | –                    | 3 317 870                                |
| <b>Current assets</b>                                   |                                 |                               |                                    |                      |  |
| Trade and other receivables                             | 1 618                           | 17 988                        | 213                                | 6 755                | 26 574                                   |
| Segment assets  | 1 322 444                       | 1 709 732                     | 305 513                            | 6 755                | 3 344 444                                |

### 33. OPERATING SEGMENTS *continued*

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items:

|  | 2011<br>R'000    | 2010<br>R'000 |
|--|------------------|---------------|
| <b>Revenues</b>                              |                  |               |
| Total revenue for reportable segments        |                  |               |
| Other revenue                                | 277 043          | 265 902       |
| Straight-line of leases                      | 315              | (352)         |
| Consolidated revenue                         | <b>277 358</b>   | 265 550       |
| <b>Profit or loss</b>                        |                  |               |
| Total profit or loss for reportable segments | 255 992          | 236 325       |
| <b>Other profit or loss</b>                  |                  |               |
| Unallocated amounts:                         | –                | –             |
| Net finance costs                            | (112 857)        | (108 593)     |
| Debenture interest                           | (143 135)        | (127 732)     |
| Gain on bargain purchase                     | 141 437          | 587           |
| Fair value adjustments                       | (393 334)        | (310 207)     |
| Other corporate expenses                     | (16 958)         | (2 268)       |
| Loss before taxation                         | <b>(268 855)</b> | (311 888)     |
| <b>Assets</b>                                |                  |               |
| Total assets for reportable segments         | 3 993 143        | 3 344 444     |
| Other assets                                 | –                | –             |
| Other unallocated amounts                    | 174 060          | 164 119       |
| Consolidated total assets                    | <b>4 167 203</b> | 3 508 563     |
| <b>Liabilities</b>                           |                  |               |
| Total liabilities for reportable segments    | –                | –             |
| Other liabilities                            |                  |               |
| Other unallocated amounts                    | 3 630 048        | 2 928 287     |
| Consolidated total liabilities               | <b>3 630 048</b> | 2 928 287     |

#### Geographical segments

None of the operating segments identified operates outside the borders of South Africa and therefore all revenues from external customers are attributable to the group's country of domicile and all non-current assets are located in the group's country of domicile, i.e. South Africa.

#### Major customer

Revenues from one customer of the group's four segments represents approximately R102,5 million (2010: R117,4 million) of the group's total revenues.

# Notes to the annual financial statements continued

For the year ended 30 June 2011

## 34. PROPERTY PORTFOLIO INFORMATION

|   | Gross rental<br>income<br>% | * Number of<br>rooms<br>% |
|---|-----------------------------|---------------------------|
| <i>34.1 By lease type</i>   |                             |                           |
| Fixed leases  | 44                          | 22                        |
| F&V leases  | 50                          | 64                        |
| Variable leases   | 6                           | 14                        |
|   | 100                         | 100                       |
| <i>34.2 Geographic profile</i>  |                             |                           |
| Gauteng   | 59                          | 43                        |
| KwaZulu-Natal   | 17                          | 17                        |
| Western Cape  | 17                          | 31                        |
| Eastern Cape  | 4                           | 5                         |
| Mpumalanga  | 3                           | 4                         |
|   | 100                         | 100                       |
| * Indicates number of rooms at 30 June 2011 and does not account for pro-rata ownership where HPF owns less than 100% of a specific hotel |                             |                           |
| <i>34.3 Vacancy</i>   |                             |                           |
| The Company had no vacant space at year end.  |                             |                           |
| <i>34.4 Tenant profile</i>  |                             |                           |
| Hotels with management companies that have national representation  | 58                          | 80                        |
| Tenant managed hotels   | 42                          | 20                        |
|   | 100                         | 100                       |
| <i>34.5 Lease expiry profile</i>  |                             |                           |
| One to five years   | 53                          | 4                         |
| Six to ten years  | 31                          | 30                        |
| Eleven to thirty years  | 16                          | 66                        |
|   | 100                         | 100                       |

### 35. INVESTMENT PROPERTIES

|                             | Property title                                 | HPF ownership   | Property location                   | Star grading | Number of rooms | Valuation 30 June 2011 |
|-----------------------------|--|---|-------------------------------------|--------------|-----------------|------------------------|
| <b>Fixed lease</b>          |  |   |                                     |              |                 |                        |
|                             | Birchwood Hotel and OR Tambo Conference Centre | Freehold Direct   | Boksburg, Gauteng                   | 3            | 450             | 701 000 000            |
|                             | Champagne Sports Resort                        | Freehold Combined share block and direct                        | Central Berg, KwaZulu-Natal         | 4            | 112             | 269 000 000            |
|                             | Kopanong Hotel and Conference Centre           | Freehold Sectional title (80% of units in the scheme)           | Benoni, Gauteng                     | 4            | 252             | 101 000 000            |
|                             | Premier Hotel King David                       | Freehold Direct   | East London, Eastern Cape           | 3            | 80              | 38 000 000             |
| <b>Total fixed lease</b>    |  |   |                                     |              | 894             | 1 109 000 000          |
| <b>Variable lease</b>       |  |   |                                     |              |                 |                        |
|                             | Radisson Blu Waterfront                        | Freehold Sectional title units (37% of income from rental pool) | Waterfront, Cape Town, Western Cape | 5            | 177             | 151 000 000            |
|                             | Courtyard Arcadia                              | Freehold 50% in the shareblock-owning company                   | Arcadia, Pretoria, Gauteng          | 4            | 69              | 34 000 000             |
|                             | Courtyard Cape Town                            | Leasehold 50% in the shareblock-owning company                  | Mowbray, Cape Town, Western Cape    | 4            | 70              | 2 000 000              |
|                             | Courtyard Eastgate                             | Freehold 50% in the shareblock-owning company                   | Bruma Lake, Johannesburg, Gauteng   | 4            | 69              | 20 500 000             |
|                             | Courtyard Rosebank                             | Freehold 32% in the shareblock-owning company                   | Rosebank, Johannesburg, Gauteng     | 4            | 83              | 28 000 000             |
|                             | Courtyard Sandton                              | Freehold 26% in the shareblock-owning company                   | Sandton, Gauteng                    | 4            | 69              | 17 300 000             |
| <b>Total variable lease</b> |  |   |                                     |              | 537             | 252 800 000            |
| <b>F &amp; V lease</b>      |  |   |                                     |              |                 |                        |
|                             | Arabella Hotel and Spa                         | Freehold Direct   | Kleinmond, Western Cape             | 5            | 145             | 100 000 000            |
|                             | Crowne Plaza Johannesburg – The Rosebank       | Freehold Direct   | Rosebank, Johannesburg, Gauteng     | 4            | 318             | 351 000 000            |
|                             | Holiday Inn Sandton – Rivonia Road             | Freehold Direct   | Sandton, Gauteng                    | 4            | 301             | 349 000 000            |
|                             | Inn on the Square                              | Freehold Direct   | Cape Town CBD, Western Cape         | 3            | 165             | 115 000 000            |
|                             | Mount Grace Country House and Spa              | Freehold Direct   | Magaliesburg, Gauteng               | 5            | 121             | 238 000 000            |
|                             | Protea Hotel Edward                            | Freehold Direct   | OR Tambo Parade Drive, Durban       | 4            | 101             | 100 000 000            |
|                             | Protea Hotel Hazyview                          | Freehold Direct   | Hazyview, Mpumalanga                | 3            | 87              | 44 000 000             |
|                             | Protea Hotel Hluhluwe and Safaris              | Freehold Direct   | Hluhluwe, KwaZulu-Natal             | 3            | 75              | 23 930 000             |
|                             | Protea Hotel Imperial                          | Freehold Direct   | Pietermaritzburg, KwaZulu-Natal     | 3            | 70              | 37 000 000             |
|                             | Protea Hotel Marine                            | Freehold Direct   | Port Elizabeth, Eastern Cape        | 4            | 114             | 90 000 000             |
|                             | Protea Hotel Richards Bay                      | Freehold Direct   | Richards Bay, KwaZulu-Natal         | 3            | 66              | 32 000 000             |
|                             | Protea Hotel – The Richards                    | Freehold Direct   | Richards Bay, KwaZulu-Natal         | 4            | 135             | 53 000 000             |
|                             | Protea Hotel – The Winkler                     | Freehold Direct   | White River, Mpumalanga             | 3            | 87              | 44 000 000             |
|                             | Protea Hotel Victoria Junction                 | Freehold Sectional title units (84% units in the scheme)        | Waterfront, Cape Town, Western Cape | 4            | 172             | 184 000 000            |
|                             | The Bayshore Inn                               | Freehold Direct   | Richards Bay, KwaZulu-Natal         | 2            | 102             | 30 000 000             |
|                             | Westin Cape Town                               | Leasehold Direct  | Cape Town CBD, Western Cape         | 5            | 483             | 803 000 000            |
| <b>Total F&amp;V lease</b>  |  |   |                                     |              | 2 542           |                        |
| <b>GRAND TOTAL</b>          |  |   |                                     |              | 3 973           | 3 955 730 000          |

# Shareholder analysis

Company: Hospitality Property Fund Ltd – A-linked units

Register date: 24 June 2011

Issued share capital: 88 761 391

| SHAREHOLDER SPREAD        | Number of unitholdings | %             | Number of units   | %             |
|---------------------------|------------------------|---------------|-------------------|---------------|
| 1 – 1 000 units           | 229                    | 27,39         | 91 584            | 0,11          |
| 1 001 – 10 000 units      | 350                    | 41,87         | 1 342 748         | 1,51          |
| 10 001 – 100 000 units    | 141                    | 16,87         | 4 884 954         | 5,50          |
| 100 001 – 1 000 000 units | 98                     | 11,72         | 30 518 173        | 34,38         |
| 1 000 001 units and over  | 18                     | 2,15          | 51 923 932        | 58,50         |
| <b>Totals</b>             | <b>836</b>             | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

## DISTRIBUTION OF UNITHOLDERS

|                      |            |               |                   |               |
|----------------------|------------|---------------|-------------------|---------------|
| Banks                | 3          | 0,36          | 26 006            | 0,03          |
| Close corporations   | 11         | 1,31          | 153 507           | 0,17          |
| Empowerment          | 3          | 0,36          | 17 036 177        | 19,19         |
| Endowment funds      | 21         | 2,51          | 1 044 557         | 1,18          |
| Individuals          | 441        | 52,75         | 1 429 186         | 1,61          |
| Insurance companies  | 25         | 2,99          | 10 083 048        | 11,36         |
| Investment companies | 6          | 0,72          | 70 206            | 0,08          |
| Medical schemes      | 12         | 1,44          | 1 684 275         | 1,90          |
| Mutual funds         | 84         | 10,05         | 41 286 538        | 46,51         |
| Nominees and trusts  | 103        | 12,32         | 1 956 460         | 2,20          |
| Other corporations   | 2          | 0,24          | 2 752             | 0,00          |
| Private companies    | 27         | 3,23          | 332 508           | 0,38          |
| Public companies     | 2          | 0,24          | 4 648             | 0,01          |
| Retirement funds     | 96         | 11,48         | 13 651 523        | 15,38         |
| <b>Totals</b>        | <b>836</b> | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

## NON-PUBLIC/PUBLIC UNITHOLDERS

|  |            |               |                   |               |
|--|------------|---------------|-------------------|---------------|
| Non-public unitholders                       | 7          | 0,84          | 10 642 141        | 11,99         |
| Directors and associates of company holdings | 6          | 0,72          | 2 343 750         | 2,64          |
| Strategic holdings (more than 10%)           | 1          | 0,12          | 8 298 391*        | 9,35          |
| Public unitholders                           | 829        | 99,16         | 78 119 250        | 88,01         |
| <b>Totals</b>                                | <b>836</b> | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

## BENEFICIAL UNITHOLDERS HOLDING 5% OR MORE

|                                      |  |  |                   |              |
|--------------------------------------|--|--|-------------------|--------------|
| Coronation Fund Managers             |  |  | 16 247 018        | 18,30        |
| Nobuntu Investments II (Pty) Limited |  |  | 9 513 012         | 10,72        |
| Nobuntu Investments (Pty) Limited    |  |  | 5 000 000         | 5,63         |
| STANLIB                              |  |  | 4 573 540         | 5,15         |
| Rand Mutual Assurance Company        |  |  | 4 556 615         | 5,13         |
| <b>Totals</b>                        |  |  | <b>39 890 185</b> | <b>44,93</b> |

\* Nobuntu Investments II (Pty) Limited owns 9 513 012 A-linked units. For the purpose of the non-public unitholder calculation, the indirect beneficial interests of the directors of Hospitality in Nobuntu Investments II (Pty) Limited, have been included in the calculation of 'Directors and associates of company holdings' and excluded from 'Strategic holdings'.

Company: Hospitality Property Fund Limited – B-linked units

Register date: 24 June 2011

Issued share capital: 88 761 391

| SHAREHOLDER SPREAD        | Number of unitholdings | %             | Number of units   | %             |
|---------------------------|------------------------|---------------|-------------------|---------------|
| 1 – 1 000 units           | 231                    | 17,48         | 100 910           | 0,11          |
| 1 001 – 10 000 units      | 746                    | 56,47         | 2 954 131         | 3,33          |
| 10 001 – 100 000 units    | 240                    | 18,17         | 6 919 380         | 7,80          |
| 100 001 – 1 000 000 units | 82                     | 6,21          | 28 786 388        | 32,43         |
| 1 000 001 units and over  | 22                     | 1,67          | 50 000 582        | 56,33         |
| <b>Totals</b>             | <b>1 321</b>           | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

#### DISTRIBUTION OF UNITHOLDERS

|                      |              |               |                   |               |
|----------------------|--------------|---------------|-------------------|---------------|
| Banks                | 2            | 0,15          | 4 754             | 0,01          |
| Close corporations   | 11           | 0,83          | 66 326            | 0,07          |
| Empowerment          | 2            | 0,15          | 10 774 595        | 12,14         |
| Endowment funds      | 18           | 1,36          | 376 290           | 0,42          |
| Individuals          | 908          | 68,73         | 5 100 413         | 5,75          |
| Insurance companies  | 24           | 1,82          | 7 656 917         | 8,63          |
| Investment companies | 5            | 0,38          | 284 530           | 0,32          |
| Medical schemes      | 4            | 0,30          | 136 807           | 0,15          |
| Mutual funds         | 64           | 4,84          | 39 546 847        | 44,55         |
| Nominees and trusts  | 154          | 11,66         | 2 518 237         | 2,84          |
| Other corporations   | 8            | 0,61          | 905 497           | 1,02          |
| Private companies    | 38           | 2,88          | 2 818 805         | 3,18          |
| Public companies     | 3            | 0,23          | 57 362            | 0,06          |
| Retirement funds     | 80           | 6,06          | 18 514 011        | 20,86         |
| <b>Totals</b>        | <b>1 321</b> | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

#### NON-PUBLIC/PUBLIC UNITHOLDERS

|  |              |               |                   |               |
|--|--------------|---------------|-------------------|---------------|
| Non-public unitholders                       | 9            | 0,69          | 11 298 598        | 12,73         |
| Directors and associates of company holdings | 8            | 0,61          | 3 000 207         | 3,38          |
| Strategic holdings (more than 10%)           | 1            | 0,08          | 8 298 391*        | 9,35          |
| Public unitholders                           | 1 312        | 99,31         | 77 462 793        | 87,27         |
| <b>Totals</b>                                | <b>1 321</b> | <b>100,00</b> | <b>88 761 391</b> | <b>100,00</b> |

#### BENEFICIAL UNITHOLDERS HOLDING 3% OR MORE

|                                      |  |  |                   |              |
|--------------------------------------|--|--|-------------------|--------------|
| Investec                             |  |  | 13 172 003        | 14,84        |
| Nobuntu Investments II (Pty) Limited |  |  | 9 513 012         | 10,72        |
| Old Mutual                           |  |  | 6 410 680         | 7,22         |
| Investment Solutions                 |  |  | 5 320 288         | 5,99         |
| Coronation Fund Managers             |  |  | 4 222 732         | 4,76         |
| Government Employees Pension Fund    |  |  | 3 966 109         | 4,47         |
| Metropolitan                         |  |  | 3 495 311         | 3,94         |
| Sanlam                               |  |  | 3 141 475         | 3,54         |
| <b>Totals</b>                        |  |  | <b>49 241 610</b> | <b>55,48</b> |

\* Nobuntu Investments II (Pty) Ltd owns 9 513 012 A-linked units. For the purpose of the non-public unitholder calculation, the indirect beneficial interests of the directors of Hospitality in Nobuntu Investments II (Pty) Limited, have been included in the calculation of "Directors and associates of company holdings" and excluded from "Strategic holdings"

## Shareholders' diary

| Event                                   | Date               |
|---|--------------------|
| Financial year-end                      | 30 June            |
| Annual general meeting                  | 4 November 2011    |
| Announcement of Interim results         | 16 February 2012*  |
| Announcement of annual results          | 22 August 2012*    |
| Integrated report posted to unitholders | 28 September 2012* |

| Distribution timetable  | Date              |
|---|-------------------|
| Distribution No. 11 for the year ended 30 June 2011             |                   |
| Declaration date  | 17 August 2011    |
| Last date to trade <i>cum</i> interest                          | 2 September 2011  |
| Linked units will trade ex interest                             | 5 September 2011  |
| Record date   | 9 September 2011  |
| Payment date of interest distribution                           | 12 September 2011 |
| Distribution No. 12 for the six months ending 31 December 2011* |                   |
| Declaration date  | 16 February 2012  |
| Last date to trade <i>cum</i> interest                          | 2 March 2012      |
| Linked units will trade ex interest                             | 5 March 2012      |
| Record date   | 9 March 2012      |
| Payment date of interest distribution                           | 12 March 2012     |

\* *Expected dates*

# 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/ending 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%; and
- 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 the most recently available CPIX figure. [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.]*

# Notice of an annual general meeting of shareholders and 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 to shareholders and debenture holders as at the record date of 23 September 2011 that the annual general meeting ("AGM") of the shareholders and debenture holders of Hospitality will be held at Crowne Plaza Jhb – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank, on Friday, 4 November 2011 at 10:00 to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ("the Companies Act"), as read with the Listings Requirements of the JSE Limited ("the JSE Listings Requirements"), which meeting is to be:

- (a) participated in and voted at by shareholders as at the record date of 28 October 2011; and
- (b) participated in by debenture holders as at the record date of 28 October 2011 in terms of section 62(3)(a), read with section 59, of the Companies Act.

Accordingly, the last day to trade in order to be registered in the register of members of the company and therefore eligible to participate in and vote at the AGM is 21 October 2011.

Due to the expanded meaning of "shareholder" in section 57(1) of the Companies Act, the company has expanded its notice to shareholders and debenture holders for a "combined" AGM. Due to Hospitality's linked unit structure, its shareholders are also its debenture holders and the matters to be voted on at the AGM are matters on which shareholders and not debenture holders, are entitled to vote. As a result, a proxy form has only been included for shareholders.

## SECTION 63(1) OF THE COMPANIES ACT: IDENTIFICATION OF MEETING PARTICIPANTS

Kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a meeting. Forms of identification include valid identity documents, drivers' licences and passports.

### 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements of the company, together with the report of the directors, the independent auditors and the audit committee for the year ended 30 June 2011, have been distributed as required and will be presented to shareholders and debenture holders.

The complete annual financial statements are set out on pages 59 to 103 of the integrated report.

### 2. ORDINARY RESOLUTION NUMBER 1: RE-ELECTION OF L DE BEER AS A DIRECTOR

"Resolved that L de Beer, who retires by rotation in terms of the memorandum of incorporation of the company and who is eligible and available for re-election, is re-elected as a director of the company."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

### 3. ORDINARY RESOLUTION NUMBER 2: RE-ELECTION OF ZN KUBUKELI AS A DIRECTOR

"Resolved that ZN Kubukeli, who retires by rotation in terms of the memorandum of incorporation of the company and who is eligible and available for re-election, is re-elected as a director of the company."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

### 4. ORDINARY RESOLUTION NUMBER 3: RE-ELECTION OF WJ MIDGLEY AS A DIRECTOR

"Resolved that WJ Midgley, who retires by rotation in terms of the memorandum of incorporation of the company and who is eligible and available for re-election, is re-elected as a director of the company."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

#### Reason and effect of ordinary resolutions numbers 1 to 3: Re-election of directors retiring by rotation at the annual general meeting

In accordance with the company's memorandum of incorporation, one-third of the non-executive directors are required to retire at each AGM and may offer themselves for re-election. Prof L de Beer, Dr ZN Kubukeli and Mr WJ Midgley retire from the board in accordance with the company's memorandum of incorporation.

An abridged curriculum vitae of each of the above directors appears on page 35 of the integrated report of which this notice forms part.

The board of directors of the company has reviewed the composition of the board against corporate governance and transformation requirements and has recommended the re-election of the directors listed above. It is the view of the board that the re-election of the candidates referred to above would enable the company to:

- responsibly maintain a mixture of business skills and experience relevant to the company and balance the requirements of transformation, continuity and succession planning; and
- comply with corporate governance requirements in respect of matters such as the balance of executive, non-executive and independent directors on the board.

#### 5. ORDINARY RESOLUTION NUMBER 4: REAPPOINTMENT OF THE EXTERNAL AUDITOR

"Resolved that KPMG Inc. is reappointed as external auditor of the company (for the financial year ending 30 June 2012) until the conclusion of the next AGM of the company."

##### Reason and effect of ordinary resolution number 4: Re-appointment of external auditor

KPMG Inc. ("KPMG") has indicated its willingness to continue in office and ordinary resolution number 4 proposes KPMG's reappointment as the company's external auditor until the conclusion of the next AGM.

Hospitality's audit committee has considered KPMG's independence in accordance with the Companies Act and is satisfied that KPMG Inc. is independent as contemplated by the applicable rules of the International Federation of Accountants (IFAC) and nominated the re-appointment of KPMG Inc. as registered external auditor until the next AGM. The Hospitality board, subject to shareholder approval as required in terms of section 90(1) of the Companies Act, reappointed KPMG Inc. and Ms T Middlemiss as the independent registered external audit firm and individual registered external auditor of Hospitality respectively.

Furthermore, the Hospitality audit committee has, in terms of paragraph 3.86 of the JSE Listings Requirements, considered and satisfied itself that KPMG Inc., the reporting accountant and individual auditor are accredited to appear on the JSE List of Accredited Auditors in compliance with section 22 of the JSE Listings Requirements.

#### 6. ORDINARY RESOLUTION NUMBER 5: ELECTION OF WC ROSS AS A MEMBER OF THE AUDIT COMMITTEE

"Resolved that WC Ross, being an independent, non-executive director of the company, be elected as a member of the audit committee of the company, until the date of the next AGM."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

#### 7. ORDINARY RESOLUTION NUMBER 6: ELECTION OF L DE BEER AS A MEMBER OF THE AUDIT COMMITTEE

"Resolved that L de Beer, being an independent, non-executive director of the company, be elected as a member of the audit committee of the company until the date of the next AGM subject to her re-election as a director in terms of ordinary resolution number 1."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

#### 8. ORDINARY RESOLUTION NUMBER 7: ELECTION OF KH ABDUL-KARRIM AS A MEMBER OF THE AUDIT COMMITTEE

"Resolved that KH Abdul-Karrim, being an independent, non-executive director of the company, be elected as a member of the audit committee of the company until the date of the next AGM."

An abridged curriculum vitae of the above director can be found on page 35 of the integrated report.

##### Reason and effect of ordinary resolutions numbers 5 to 7: Election of audit committee members

In terms of the Companies Act, the audit committee is no longer a committee of the board, but a committee elected by the shareholders at each AGM. The King Report on Governance for South Africa 2009 (King III) likewise requires the shareholders of a public company to elect the members of an audit committee at each AGM.

Hospitality's board, having satisfied itself among others, of the independence, qualifications, experience and expertise of the non-executive directors offering themselves for election as members of the Hospitality audit committee, recommends their re-election to shareholders.

# Notice of an annual general meeting of shareholders and debenture holders continued

## 9. ORDINARY RESOLUTION NUMBER 8: ENDORSEMENT OF THE REMUNERATION POLICY

"Resolved that, through a non-binding advisory vote, the remuneration policy as set out in the remuneration report on page 42 of the integrated report be and it is hereby noted and endorsed."

### Reason and effect of ordinary resolution number 8: Endorsement of remuneration policy

In terms of King III recommendations, every year, the company's remuneration policy should be tabled for a non-binding advisory vote at the AGM. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted in the remuneration of executive directors and on their implementation.

Accordingly, the shareholders are requested to endorse the company's remuneration policy as recommended by King III.

## 10. ORDINARY RESOLUTION NUMBER 9: GENERAL AUTHORITY TO DIRECTORS TO ALLOT AND ISSUE AUTHORISED BUT UNISSUED SECURITIES

"Resolved that, as required by and subject to the memorandum of incorporation of the company, and subject to the requirements of the debenture trust deed governing the unsecured, subordinated, variable rate "A" and "B" debentures of the company having a nominal value of R9,40 (nine rand forty cents) per debenture ("the debentures"), the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the directors are authorised, as they in their discretion think fit, to allot and issue the authorised but unissued securities in the company to such person(s) and upon such terms and conditions as the directors may determine:

1. 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;
2. 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 10% 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 AGM of the company."

## 11. Ordinary resolution number 10: General authority to directors to issue shares for cash

"Resolved that, subject to the restrictions set out below and subject to the provisions of the Companies Act and the JSE Listings Requirements, the directors of the company are hereby authorised by way of a general authority to allot and issue any portion of the "A" shares and/or "B" shares of the company for cash on the following basis:

- a) each "A" share shall be linked to one unsecured, subordinated, variable rate "A" debenture having a nominal value of R9,40 (nine rand forty cents) per debenture, each thereby constituting an "A" linked unit, and each "B" share shall be linked to one unsecured, subordinated, variable rate "B" debenture having a nominal value of R9,40 (nine rand forty cents) per debenture, each thereby constituting a "B" linked unit;
- b) the allotment and issue of shares for cash shall be made only to persons qualifying as "public shareholders" and not to "related parties" as the terms are defined in the JSE Listings Requirements;
- c) the number of "A" shares or "B" shares, as the case may be, issued as part of linked units for cash shall not in aggregate in any one financial year of the company exceed 10% of the company's issued share capital of the relevant class. The number of "A" shares and "B" shares which may be issued for cash shall be based on the number of shares of the relevant class in issue at the date of the application, aggregated (where applicable) with any shares in the relevant class that may be issued in future arising from the conversion of option/convertible securities less any shares of the relevant class issued, or to be issued in future arising from options/convertible securities issued, by the company during the current financial year; provided that any shares of the relevant class to be issued for cash pursuant to a rights issue (which has been announced and is irrevocable and fully underwritten) or acquisition (concluded and final terms announced) may be included as though they were shares of the relevant class in issue at the date of application;
- d) the maximum discount at which A-linked units or B-linked units, as the case may be, may be issued in terms of this authority is 10% of the weighted average trade price on the JSE of the relevant linked units over 30 business days prior to the date on which the price of the issue is determined or agreed by the directors of the company;
- e) the company shall, after the company has issued shares of the relevant class as part of an issue of linked units for cash which represent, on a cumulative basis within a financial year, 5% or more of the number of shares of the relevant class in issue prior to the issue, publish an announcement containing full details of the issue (including the number of linked units issued, the average discount to the weighted average traded price of the linked units over the 30 days prior to the date that the price was determined and the effect of the issue on the net asset value, earnings per linked unit and headline earnings per

linked unit, or any other announcements(s) that may be required in such regard in terms of the JSE Listings Requirements which may be applicable from time to time;

- f) the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- g) any such general issues are subject to exchange control regulations and approval at that point in time; and
- h) this authority will only be valid until the company's next AGM (whereupon this authority shall lapse unless it is renewed at the aforementioned AGM provided that it shall not extend beyond 15 months of the date of this meeting).

**Reason and effect of ordinary resolution number 9 to 10: General authority to directors to allot and issue authorised but unissued securities and general authority to directors to issue shares for cash**

In terms of the company's memorandum of incorporation, read with the JSE Listings Requirements, the shareholders may authorise the directors to allot and issue authorised but unissued securities as the directors in their discretion think fit.

In terms of the JSE Listings Requirements, when shares are issued for cash (or the extinction of a liability, obligation or commitment, restraint, or settlement of expenses), amongst others, the shareholders have to authorise the issue.

The authorities will be subject to the Companies Act and the JSE Listings Requirements. The aggregate number of "A" shares and "B" shares able to be allotted and issued in each class in terms of these authorities are limited as set out in the respective resolutions.

The directors consider it advantageous to approve these authorities to enable the company to take advantage of any business opportunities that may arise in future. Being able to act promptly on such opportunities through the issue of shares as whole or part consideration puts Hospitality at an advantage where negotiations are concerned.

**12. ORDINARY RESOLUTION NUMBER 11: 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 those resolutions that are approved at the AGM of the company."

**13. SPECIAL RESOLUTION NUMBER 1: NON-EXECUTIVE DIRECTORS' REMUNERATION**

"Resolved that the payment of the remuneration of the non-executive directors, for their services as directors, as recommended by the remuneration committee and approved by the board for consideration by shareholders for the period 1 July 2011 to 30 June 2012 be and is hereby approved as follows:

|                                      | Chairman<br>Rand | Member<br>Rand |
|--------------------------------------|------------------|----------------|
| Board (per annum)                    | 196 000          | 156 000        |
| Audit committee (per annum)          | 50 000           | 40 000         |
| BEE committee (per annum)            | 20 000           | 16 000         |
| Investment committee (per meeting)   | 9 100            | 7 200          |
| Nomination committee (per meeting)   | 5 000            | 4 000          |
| Remuneration committee (per meeting) | 5 000            | 4 000          |

The above fees represents a 6% inflationary increase to prior year.

**Reason and effect of special resolution number 1: Non-executive directors' remuneration**

The reason and effect of special resolution number 1 is to obtain shareholder approval for the remuneration of each of the non-executive directors of the company for the period 1 July 2011 to 30 June 2012 in accordance with section 66(8) and 66(9) of the Companies Act.

This resolution is recommended by the company's board of directors. Full particulars of all remuneration of non-executive directors for their services as directors, paid during the past year, as well as the process followed by the remuneration committee in recommending the remuneration of non-executive directors for their services as directors, are contained on page 85 of this integrated report.

# Notice of an annual general meeting of shareholders and debenture holders continued

## 14. SPECIAL RESOLUTION NUMBER 2: FINANCIAL ASSISTANCE TO SUBSIDIARIES AND OTHER RELATED AND INTER-RELATED ENTITIES

"Resolved that, to the extent required by the Companies Act, the board of directors of the company may, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related to the company for any purpose or in connection with any matter including, but not limited to, the subscription of any option or any securities issued or to be issued by the company or a related or inter-related company or for the purchase of any securities of the company or a related or inter-related company including any direct or indirect financial assistance as contemplated in section 45 of the Companies Act, such authority to endure until the next AGM of the company."

## 15. SPECIAL RESOLUTION NUMBER 3: FINANCIAL ASSISTANCE TO DIRECTORS, PRESCRIBED OFFICERS AND OTHER PERSONS PARTICIPATING IN SHARE OR OTHER EMPLOYEE INCENTIVE SCHEMES

"Resolved that, to the extent required by the Companies Act, the board of directors of the company may, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future directors or prescribed officers (or any person related to any of them or to any company or corporation related or inter-related to any of them), or to any other person who is a participant in any employee incentive scheme operated within the Hospitality group for the purpose of, or in connection with, the subscription of any option or any securities issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Companies Act, such authority to endure until the forthcoming annual general meeting of the company."

**Reason and effect of special resolutions numbers 2 and 3: Authority to provide financial assistance to subsidiaries and other related and inter-related entities and to directors, prescribed officers and other persons participating in share or other employee incentive schemes**

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance for any purpose provided by a company to related or inter-related companies or corporations, including, amongst others, its subsidiaries.

Furthermore, section 44 of the Companies Act may also apply to the financial assistance so provided by a company to related or inter-related companies, in the event that the financial assistance is provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

Both sections 44 and 45 of the Companies Act provide, amongst others, that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient or generally for a category of potential recipients and the specific recipient falls within that category and the board of directors must be satisfied that –

- (a) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test; and
- (b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

When the need previously arose, the company had to provide loans to and guarantees to loans or other obligations of subsidiaries and was not precluded from doing so in terms of its articles of association or in terms of the Companies Act, 1973. The company would like the ability to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Companies Act. Furthermore, it may be necessary or desirous for the company to provide financial assistance to related or inter-related companies and corporations to subscribe for options or securities or purchase securities of the company or another company related or inter-related to it. Under the Companies Act, the company will however require the special resolution referred to above to be adopted. In the circumstances and in order to, amongst others, ensure that the company's subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the company (as opposed to banks), it is necessary to obtain the approval of shareholders as set out in special resolution number 2.

Sections 44 and 45 contain exemptions in respect of employee share schemes that satisfy the requirements of section 97 of the Act. To the extent that any Hospitality or Hospitality group incentive scheme does not satisfy such requirements, financial assistance

(as contemplated in sections 44 and 45) to be provided under any such scheme will, amongst others, also require approval by special resolution. Accordingly, special resolution number 3 effectively authorises financial assistance to any of the company's directors or prescribed officers (or any person related to any of them or to any company or corporation related or inter-related to them), or to any other person who is a beneficiary of a Hospitality group incentive scheme, in order to facilitate their participation in any such scheme that does not satisfy the requirements of section 97 of the Companies Act.

#### 16. SPECIAL RESOLUTION NUMBER 4: GENERAL AUTHORITY TO ACQUIRE SHARES

"Resolved that the company and/or a subsidiary of the company is authorised by way of a general authority to repurchase or purchase, as the case may be, shares issued by the company, from any person, upon such terms and conditions and in such number as the directors of the company or the subsidiary may from time to time determine, subject to the applicable requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, and subject further to the restriction that the repurchase or purchase, as the case may be, by the company and/or any of its subsidiaries, of shares in the company of any class under this authority shall not, in aggregate in any one financial year, exceed 10% of the shares in issue in such class as at the commencement of such financial year, 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 repurchased pursuant to this authority in any financial year, may in the aggregate not exceed 10% of the company's share capital of the relevant class from the date of the grant of this 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 (the maximum price). The JSE will be consulted for a ruling if the company's securities have not traded in such a five business-day period;
- 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;
- e) the company shall release an announcement on SENS and in the press, as soon as it or its subsidiary has, on a cumulative basis purchased or repurchased as the case may be, "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 this authority from shareholders for the repurchase was granted), and for each 3% in aggregate of the initial number of such class of shares purchased or repurchased, as the case may be, thereafter;
- f) this general authority shall be valid until the next AGM 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) the number of shares purchased and held by a subsidiary or subsidiaries of the company shall not exceed 10% in the aggregate of the number of issued shares in the company at the relevant times;
- i) a resolution has been passed by the board confirming that it has authorised the general repurchase, that the company has passed the solvency and liquidity test and that since the test was done there were no material changes to the financial position of the group;
- j) authorisation thereto is given by the company's memorandum of incorporation; and
- k) if the company enters into derivative transactions that may or will result in the repurchase of shares in terms of this general authority, such transactions will be subject to the requirements in paragraphs b), d), f), g) and j) above, and the following requirements:
  - 1) the strike price of any put option written by the company less the value of the premium received by the company for that put option may not be greater than the fair value of a forward agreement based on a spot price not greater than the maximum price in paragraph c) above;
  - 2) the strike price and any call option may be greater than the maximum price in paragraph c) at the time of entering into the derivative agreement, but the company may not exercise the call option if it is more than 10% "out the money";
  - 3) the strike price of the forward agreement may be greater than the maximum price but limited to the fair value of a forward agreement calculated from a spot price not greater than the maximum price."

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:

# Notice of an annual general meeting of shareholders and debenture holders continued

- 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 notice of the AGM;
- 2) the company and the group's assets will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the notice of the AGM. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements which comply with the Companies Act;
- 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 notice of the annual general meeting;
- 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 notice of the AGM; 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."

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

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

#### Other disclosure in accordance with section 11.26 of the JSE Listings Requirements:

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

- Directors – page 35
- Major beneficial linked unit holders – pages 104 and 105
- Directors interests in linked units – page 60
- Share and debenture capital of the company – pages 81 and 82

#### Material change statement

Other than the facts and developments reported in the integrated report of which this notice forms part, there have been no material changes in the 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 35 of the integrated 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 35 of the integrated 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.

#### Reason and effect special resolution number 4: General authority to acquire shares

The board of directors of the company has considered the impact of a repurchase or purchase, as the case may be, of up to 10% of the company's shares which falls within the amount permissible under a general authority in terms of the JSE Listings Requirements and, in respect of acquisitions by a subsidiary of the company, the Companies Act.

Should the opportunity arise and should the directors deem it to be advantageous to the company, or any of its subsidiaries, to repurchase or purchase, as the case may be, such shares, it is considered appropriate that the directors (and relevant subsidiaries) be authorised to repurchase or purchase, as the case may be, the company's shares.

#### VOTING REQUIREMENTS

Except for ordinary resolution number 10, all ordinary resolutions will, in terms of the Act require support of more than 50% of the voting rights exercised thereon, to be approved. All special resolutions will, in terms of the Act, require support of at least 75% of the total voting rights exercised thereon at the meeting, to be approved.

In terms of the JSE listings requirements, support of at least 75% of votes cast by all equity securities holders present or represented by proxy at the AGM must be cast in favour of ordinary resolution number 10 for it to be approved.

## SHAREHOLDERS

### GENERAL INSTRUCTIONS

Shareholders are encouraged to attend, speak and vote at the AGM.

### ELECTRONIC PARTICIPATION

The company has made provision for its shareholders or their proxies to participate electronically in the AGM by way of telephone conferencing. Should you wish to participate in the AGM by telephone conference call as aforesaid, you, or your proxy, will be required to advise the company thereof by no later than 10h00 on Monday, 24 October 2011 by submitting by e-mail to the company secretary on rosao@hpf.co.za or by fax to +27+11 994 6320 for the attention of Mrs Rosa van Onselen, relevant contact details, including an e-mail address, cellular number and landline as well as full details of the shareholder's title to securities issued by the company and proof of identity, in the form of copies of identity documents and share certificates (in the case of materialised shares) and (in the case of dematerialised shares) written confirmation from the shareholder's CSDP confirming the shareholder's title to the dematerialised shares. Upon receipt of the required information, the shareholder concerned will be provided with a secure code and instructions to access the electronic communication during the AGM. Shareholders must note that access to the electronic communication will be at the expense of the shareholders who wish to utilise the facility.

Shareholders and their appointed proxies attending by conference call will not be able to cast their votes at the AGM through this medium.

### PROXIES AND AUTHORITY FOR REPRESENTATIVES TO ACT

A shareholder entitled to attend, speak and vote at the AGM 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 the company's sub-register in dematerialised electronic form with "own name" registration.

All other beneficial owners who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the AGM 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.

It is requested that the company receives forms of proxy at its registered office by no later than 10:00 on Wednesday, 2 November 2011. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend, speak and vote in person at the AGM should the shareholder decide to do so.

A company that is a shareholder wishing to attend and participate at the AGM should ensure that a resolution authorising a representative to so attend and participate at the AGM on its behalf is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the company's transfer secretaries prior to the AGM.

### DEBENTURE HOLDERS

#### GENERAL INSTRUCTIONS

Debenture holders are encouraged to attend and speak at the AGM.

#### PROXIES AND AUTHORITY FOR REPRESENTATIVES TO ACT

Due to Hospitality's linked unit structure, its shareholders are also its debenture holders and the matters to be voted on at the AGM are matters on which shareholders and not debenture holders, are entitled to vote. As a result, a proxy form has only been included for shareholders.

By order of the board



LR van Onselen

For HPF Management (Pty) Limited  
Company Secretary

17 August 2011

## Hotel trading statistics

### Consolidated hotel income statements for F&V and variable leased properties

|                                       | R'000's        | % of revenue |
|---------------------------------------|----------------|--------------|
| <b>Revenue</b>                        | <b>547 871</b> | <b>100</b>   |
| Rooms                                 | 370 253        | 68           |
| Food & Beverage                       | 154 557        | 28           |
| Spa & Beauty Salon                    | 9 482          | 2            |
| Other                                 | 13 579         | 2            |
| <b>Departmental profit</b>            | <b>333 418</b> | <b>61</b>    |
| Rooms                                 | 287 502        | 78           |
| Food & Beverage                       | 40 805         | 26           |
| Spa & Beauty Salon                    | 3 233          | 34           |
| Other                                 | 1 878          | 14           |
| <b>Other hotel expenses</b>           | <b>156 053</b> | <b>28</b>    |
| Administration and general            | 64 753         | 12           |
| Sales and marketing                   | 40 239         | 7            |
| Heat, light and power                 | 22 224         | 4            |
| Repairs and maintenance               | 28 837         | 5            |
| <b>Management controllable profit</b> | <b>177 365</b> | <b>32</b>    |
| Fixed expenses                        | 34 112         | 6            |
| Management and incentive fees         | 25 735         | 5            |
| <b>Hotel profit</b>                   | <b>117 518</b> | <b>21</b>    |

### Occupancy and ADR analysis

|  | Occupancy  |            |            |            | ADR         |             |             |             | RevPAR      |             |             |             |
|--|------------|------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  | 2008       | 2009       | 2010       | 2011       | 2008        | 2009        | 2010        | 2011        | 2008        | 2009        | 2010        | 2011        |
| Variable   | 80%        | 73%        | 60%        | 53%        | R1 015      | R1 142      | R1 261      | R1 253      | R814        | R839        | R755        | R665        |
| F&V lease  | 63%        | 50%        | 52%        | 51%        | R633        | R817        | R840        | R816        | R397        | R407        | R433        | R416        |
| Fixed lease  | 67%        | 58%        | 55%        | 45%        | R574        | R690        | R820        | R726        | R385        | R401        | R449        | R330        |
| <b>Total for F&amp;V and variable lease properties</b> | <b>68%</b> | <b>56%</b> | <b>53%</b> | <b>51%</b> | <b>R776</b> | <b>R922</b> | <b>R947</b> | <b>R913</b> | <b>R530</b> | <b>R512</b> | <b>R506</b> | <b>R470</b> |
| <b>Total all properties</b>                            | <b>68%</b> | <b>56%</b> | <b>54%</b> | <b>50%</b> | <b>R708</b> | <b>R854</b> | <b>R911</b> | <b>R860</b> | <b>R480</b> | <b>R481</b> | <b>R490</b> | <b>R426</b> |
| 2 & 3 Star   | 68%        | 55%        | 52%        | 47%        | R511        | R635        | R717        | R652        | R348        | R350        | R374        | R305        |
| 4 Star   | 65%        | 56%        | 54%        | 50%        | R697        | R830        | R872        | R832        | R453        | R464        | R474        | R415        |
| 5 Star   | 79%        | 64%        | 57%        | 59%        | R1 528      | R1 819      | R1 861      | R1 561      | R1 204      | R1 162      | R1 060      | R918        |

# Proxy form for 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)

### 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 company's sub-register.

For completion by the aforesaid registered shareholders of Hospitality who are unable to attend the annual general meeting of the company to be held at Crowne Plaza Jhb – The Rosebank, Cnr Tyrwhitt & Sturdee Avenues, Rosebank, on Friday, 4 November 2011 at 10:00 ("the AGM").

I/We (name/s in block letters)

of (address)

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

1. \_\_\_\_\_ or failing him/her

2. \_\_\_\_\_ or failing him/her

3. the chairman of the AGM, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the AGM of the company and at any adjournment thereof, as follows:

| RESOLUTIONS   | FOR | AGAINST | ABSTAIN |
|---|-----|---------|---------|
| 1 Ordinary resolution number 1: Re-election of L de Beer as a director  |     |         |         |
| 2 Ordinary resolution number 2: Re-election of ZN Kubukeli as a director  |     |         |         |
| 3 Ordinary resolution number 3: Re-election of WJ Midgley as a director   |     |         |         |
| 4 Ordinary resolution number 4: Re-appointment of the external auditor  |     |         |         |
| 5 Ordinary resolution number 5: Election of WC Ross as a member of the audit committee  |     |         |         |
| 6 Ordinary resolution number 6: Election of L de Beer as a member of the audit committee  |     |         |         |
| 7 Ordinary resolution number 7: Election of KH Abdul-Karrim as a member of the audit committee  |     |         |         |
| 8 Ordinary resolution number 8: Endorsement of remuneration policy  |     |         |         |
| 9 Ordinary resolution number 9: General authority to directors to allot and issue authorised but unissued securities  |     |         |         |
| 10 Ordinary resolution number 10: General authority to directors to issue shares for cash   |     |         |         |
| 11 Ordinary resolution number 11: Signature of documentation  |     |         |         |
| 12 Special resolution number 1: Non-executive directors' remuneration   |     |         |         |
| 13 Special Resolution Number 2: Financial assistance to subsidiaries and other related and inter-related entities   |     |         |         |
| 14 Special resolution number 3: Financial assistance to directors, prescribed officers and other persons participating in share or other employee incentive schemes |     |         |         |
| 15 Special resolution number 4: General authority to acquire shares   |     |         |         |

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2011.

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. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. 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. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date –
  - 5.1 stated in the revocation instrument, if any; or
  - 5.2 upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Act.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder must be delivered by such company to –
  - 6.1 the shareholder; or
  - 6.2 the proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.
7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction except to the extent that the Memorandum of Incorporation of the relevant company or the instrument appointing the proxy provide otherwise.
8. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy or supplies a form of instrument for appointing a proxy –
  - 8.1 such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised;
  - 8.2 the company must not require that the proxy appointment be made irrevocable; and
  - 8.3 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used unless revoked as contemplated in section 58(5) of the Act.
9. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies. A deletion of any printed matter and the completion of any blank space(s) need not be signed or initialled.
10. 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.
11. 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.
12. A company holding shares in the company that wishes to attend and participate in the AGM should ensure that a resolution authorising a representative to act is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the company's transfer secretaries prior to the AGM.
13. Where there are joint holders 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.
14. 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 of the relevant class issued by the company.
15. 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.
16. A proxy may not delegate his/her authority to act on behalf of the shareholder; to another person.
17. A shareholder's instruction to the proxy must be indicated by the insertion of the relevant number of shares to be voted on behalf of that shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the chairperson of the annual general meeting, if the chairperson is the authorised proxy, to vote in favour of the resolutions at the annual general meeting or other proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit, in respect of the shares concerned. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or the proxy, but the total of votes cast in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
18. It is requested that this form of proxy be lodged or posted or faxed to the company's registered office or faxed to +27+11 994 6320, to be received by the company not later than 10:00 on Wednesday, 2 November 2011.
19. 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.

# Corporate information

## SECRETARIES AND MANAGERS

LR van Onselen for  
HPF Management (Pty) Limited  
3 on Glenhove  
Corner 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  
Corner Glenhove Road and Tottenham Avenue  
Melrose Estate  
Johannesburg  
(PO Box 522195, Saxonwold, 2132)

## BANKERS

Absa Bank Limited  
15 Alice Lane  
Sandton  
(Private Bag X10056, Sandton, 2146)

Nedbank Limited  
135 Rivonia Road  
Sandton  
(PO Box 1144, Johannesburg, 2000)

## TRUSTEE TO DEBENTURE HOLDERS

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

## INDEPENDENT AUDITORS

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  
Corner Fredman Drive and Rivonia Road  
Sandton  
(PO Box 786273, Sandton, 2146)

## TRANSFER SECRETARIES

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



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