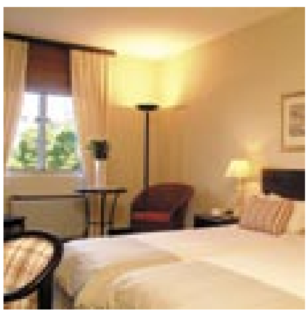
Hospitality PROPERTY FUND

ANNUAL REPORT 2006

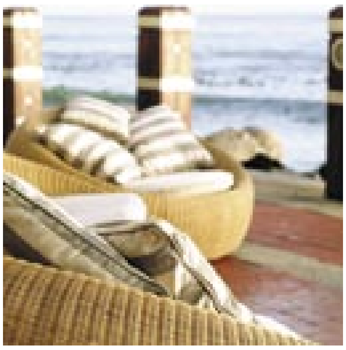



CONTENTS



PROFILE

Hospitality Property Fund ('Hospitality' or 'the Fund') is a property loan stock company, which invests in properties in the hotel and leisure industries. The Fund is a publicly traded company and was listed on the main board of the JSE Limited (JSE) under the Financials – Real Estate sector on 16 February 2006.



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

The Fund consists of investments in 16 hotel and resort properties in South Africa, and is highly diversified in terms of geographic location, star grading, fixed and variable income, market mix, and brand affiliation.

The Fund comprises a total of 36,2 million A-linked units and 36,2 million B-linked units, which are traded on the JSE under the HPA and HPB codes respectively. As at 30 June 2006 the properties were independently valued at a total of R1,161 billion.

FINANCIAL HIGHLIGHTS

4½-month trading period ended 30 June 2006

37,40c Distribution per A-linked unit (cents)	**Per forecast** Distribution per A-linked unit compared to prospectus*
45,12c Distribution per B-linked unit (cents)	**+17,6%** Distribution growth per B-linked unit compared to prospectus*
R1,2 billion Property portfolio valuation	**+16,4%** Revaluation surplus (% growth)
1 142c Net asset value per linked unit (cents)	**+15,7%** Growth in net asset value per linked unit

**Note: based on an adjusted prospectus forecast which takes into account actual property transfer dates.*

'As the first property loan stock company in South Africa investing solely in the hotel and leisure sector, the Fund provides investors with exposure to the growth potential of both the hospitality and the property industries.'

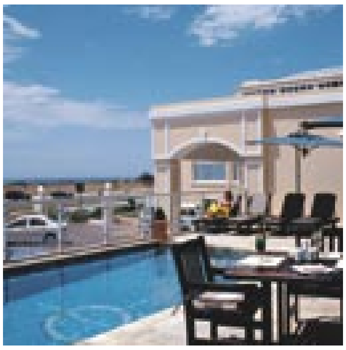
FUND MANAGERS REPORT

Highlights

The results for the four-and-a-half month trading period to June 2006 have exceeded expectations. Distributions to unitholders were up by 8,9%, resulting in the A-linked unit forecast being achieved and a 17,6% increase in the distribution on the B-linked unit. This growth was mainly as a result of increased rental income received from the properties under variable rental structures, due to increased operational profitability, favourable trading conditions and the implementation of effective hotel and asset management structures.

Introduction

The Fund listed on the JSE on 16 February 2006 after extensive research and groundwork undertaken by the promoters. As the first property loan stock company in South Africa investing solely in the hotel and leisure sector, the Fund provides investors with exposure to the growth potential of both the hospitality and the property industries.



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

The initial subscription was undertaken by way of a private placement which was more than eight times oversubscribed and approximately a quarter of all units in issue were held by the property vendors at listing. During the two month period after listing the units traded at some 20% to 35% above issue price. Subsequently the unit price movements have been in line with the listed property sector.

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

Hospitality has a 12,5% BEE ownership component (by market capitalisation) through its BEE partners Nobuntu Investments (Pty) Ltd and the National Empowerment Fund Corporation (Pty) Ltd. The Fund continues to actively pursue opportunities to expand its empowerment credentials and is strongly committed to achieving the targets as set out in the Property Sector Transformation Charter.

The prospectus forecast assumed that all properties would be transferred and that the listing would be effective 1 February 2006. Delays in the transfer of certain properties resulted in the listing being delayed to 16 February 2006. As a result, an adjusted prospectus forecast (APF) reflecting actual property transfer dates was prepared as a pro-forma basis for comparison of financial results. The effective trading period was approximately four-and-a-half months.

Review of trading climate

Economic and financial overview

Following several years of exceptional growth in the South African economy, the first two quarters of 2006 remained robust but showed some signs of moderation. The annualised GDP growth for the first quarter of 2006 was some 4,2% up on the previous year.

The growing global economy, rising geopolitical tensions and supply constraints placed pressure on international oil prices, which has led to global inflationary concerns. In addition, higher growth in domestic expenditure compared to domestic production has resulted in a considerable rise in imports and an increase in South Africa's current account deficit resulting in further inflationary pressure. In an attempt to maintain inflation within the target inflation band the South African Reserve Bank has, since June 2006 raised interest rates by 100 basis points, which together with emerging market concerns has resulted in high volatility and some weakness in listed property prices.

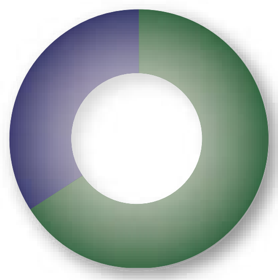
Hospitality sector overview

Approximately two thirds of the room nights sold within the portfolio are occupied by domestic guests, while the balance is occupied by foreign guests. In terms of target market, there is an equal spread between business, corporate and leisure room nights sold.

Globally the tourism and hospitality industry continued to recover in 2004 and 2005, following several difficult years after the turn of the millennium.

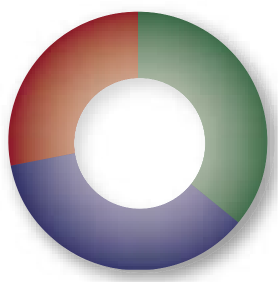
International growth in tourist arrivals in 2004 totalled 10,0%. In 2005 global tourist arrivals grew by a further 5,6%, with tourism receipts increasing by 7,7%. The tourism industry performance in 2006 continues to be positive, with the preliminary World Tourism Organisation data suggesting that globally tourist arrivals increased by 4,5% over the first four months of the year.

Patronage by Source Market



Domestic	66%
Foreign	34%

Patronage by Target Market



Business	36%
Conference	36%
Leisure	28%

Tourist arrivals growth in South Africa has generally outperformed global tourism growth since 1994. Foreign tourist arrivals in South Africa grew by an average annualised 14% per annum between 1994 and 2005. Growth in recent years has continued to be positive, despite a global tourism industry slowdown. In 2005 foreign arrivals in South Africa increased by 10,3% and increased by approximately 16% in the first four months of 2006. Foreign air arrivals at Johannesburg International Airport increased by 6,7% over the first six months of 2006 when compared to the same period in 2005, while arrivals at Cape Town International Airport increased by 6,0% over the same period.

The domestic corporate, leisure and conferencing market segments continue to provide the backbone of the South African hotel industry. Domestic tourism is likely to continue to grow at least in line with domestic economic growth.

The conference sector has benefited from the increasing number of public and private sector conferences, workshops and seminars, as well as the continued increase in exposure of South Africa as a conference destination.

The corporate segment is expected to continue to grow in line with economic growth. The domestic leisure tourism segment is likely to grow significantly as a result of the emerging upwardly mobile middle class

'Tourist arrival growth in South Africa has generally outperformed global tourism growth, with tourist arrivals increasing by an average of 14% per annum between 1994 to 2005.'

park inn

'The A-linked units have a preferential claim to earnings while the B-linked units benefit from Hospitality's growth potential.'

FUND MANAGERS REPORT *(continued)*

with increasing disposable income. This will allow certain demographic market segments which could previously not afford to travel for leisure purposes to become active participants in the industry.

Globally, potential growth constraints include an escalation in geopolitical tensions, increasing travel costs due to a rise in the fuel price and a slow down in global economic growth. Domestically, potential growth constraints for foreign tourist arrivals include continued high perceived levels of crime and restrictive air access to the country.

Due to the diversity of the demand market segments of the hotels in the portfolio, the Fund is well placed to manage fluctuations in the trading climate. Nonetheless, global and domestic trading conditions continue to be monitored.

Within the local hotel sector, we expect average room rates achieved in the market to grow in excess of the Consumer Price Inflation (CPIX) in the medium to long term due to strong demand growth drivers. According to the Deloitte Hotel Benchmark Survey for South Africa, average room rates increased by 9,6% during the first half of 2006.

Hotel supply is likely to grow in anticipation of the World Cup 2010 and the associated tourism product exposure. However, any new supply on the market is likely to require higher room-rates due to escalated development costs. When comparing the historic purchase costs of the properties in the Fund to current development costs, the Fund is favourably placed to benefit from such potential room rate inflation.

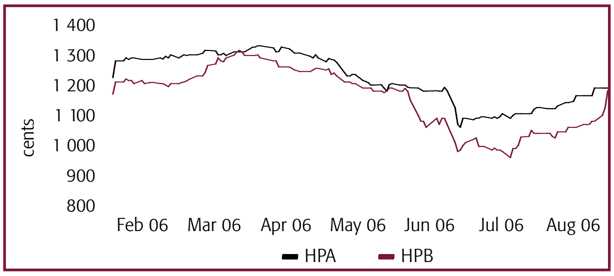
Listed property sector overview

The listed property sector has been under pressure in recent months mainly due to rising interest rates and a widespread sell-off in part due to emerging market concerns. This volatility has abated, offering investors an opportunity to earn an attractive yield at relatively low risk.

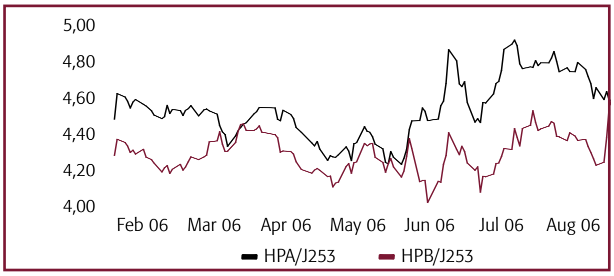
Escalating building costs have limited speculative new development activity and demand is currently pressurising supply, which is evident by the low vacancy levels across the sector.

As the fundamental drivers in the commercial property sector are sound, listed property should continue to provide good earnings growth within the next few years.

Hospitality unit price movement



Hospitality unit price relative to the listed property sector



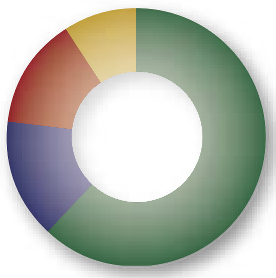
Results

4 ½-month trading period	Actual R'000	Adjusted prospectus forecast R'000	Variance %
Contractual rental income	47 193	43 607	8,2
Fund expenses	(6 356)	(5 003)	(27,0)
Interest paid	(10 180)	(11 200)	9,1
Listing expenses	(1 604)	(4 990)	67,9
Profit before debenture interest	29 053	22 414	29,6
Debenture interest	(29 851)	(27 403)	8,9
Distribution – "A-linked unit"	(13 530)	(13 530)	0,0
Distribution – "B-linked unit"	(16 321)	(13 873)	17,6
Distribution per "A-linked unit" (cents)	37,40	37,40	0,0
Distribution per "B-linked unit" (cents)	45,12	38,35	17,6

For the 4 ½-month period the distribution per A-linked unit amounted to 37,40 cents, in line with the adjusted prospectus forecast, translating to an annualised yield of 9,68% on issue price. The distribution per B-linked unit was 45,12 cents, a 17,6% increase over the adjusted prospectus forecast distribution, equating to an annualised yield of 11,68% on the issue price.

The growth in distribution was mainly as a result of increased rental income received from the properties under variable rental structures. During the period, operational profitability increased due to favourable trading conditions, implementation of effective hotel and asset management structures, critical review of expenditure and a focus on operating efficiencies.

Rental per Lease Type



Fixed	62%
C-Corp (fixed)	13%
C-Corp (variable)	16%
Variable	9%

Property portfolio

The Fund's portfolio comprises interests in 16 hotel and resort properties located in South Africa. These properties can be categorised into three segments based on lease agreement type, namely; fixed lease properties, C-Corp lease properties and variable lease properties.

There are a total of six fixed lease properties, which contributed 62% of rental income for the period ending 30 June 2006. These properties are: Birchwood Executive Hotel & Conference Centre, Champagne Sports Resort, Premier Hotel King David (previously Protea Hotel East London), Kopanong Hotel & Conference Centre, Radisson Hotel Waterfront, and Park Inn Greenmarket Square. Rentals under fixed lease

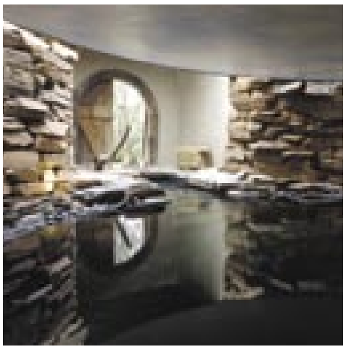
MOUNT GRACE
COUNTRY HOUSE & SPA

'Due to the high levels of diversity of the demand market segments of the properties in Hospitality, we believe that the Fund is well placed to manage fluctuations in the trading climate.'

agreements are determined by normal contractual lease terms with inflation-linked annual escalations.

The Birchwood Executive Hotel & Conference Centre, initially under a C-Corp lease, was converted to a fixed lease agreement at 12,5% initial yield with an additional turnover rental component effective from transfer. The change to the fixed lease agreement added stability to the Fund's rental earnings, whilst the turnover component allows the Fund to share in the potential upside of the operational performance of the hotel.

There are five variable lease properties in the Fund, consisting of the Courtyard Hotels portfolio, with properties in Arcadia, Cape Town, Eastgate, Rosebank and Sandton. The tenant of these properties is City Lodge Hotels Limited and income derived from the properties is based directly on the EBITDA (earnings before interest, tax, depreciation and amortisation) from the properties' underlying operations. For the year ended June 2006, these properties accounted for 9% of the Fund's income.



C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being a variable rental equivalent to 90% of the hotel's EBITDA after deducting the fixed lease portion. In effect the rent transferred to the Fund is equivalent to 95% of the hotel's EBITDA.

The C-Corp lease properties accounted for 29% of the income to the Fund for the period ended 30 June 2006. The C-Corp lease properties comprise the Mount Grace Country House & Spa, Protea Hotel Marine Port Elizabeth, Protea Hotel Richards Bay, the Rosebank Hotel and the Winkler Hotel.

The Fund's average daily rate achieved during the period was R565 at a room occupancy rate of 66,5%, equating to a revenue per available room of R376.

Throughout the trading period all properties were fully let. The average lease expiry period across the portfolio was more than nine years at year end.

Refurbishments, upgrades and expansions

The feasibility of the refurbishment, expansion and repositioning of several properties is currently being investigated.

As anticipated in the prospectus, a large scale refurbishment of the Rosebank Hotel is planned.

The Fund is also reviewing refurbishment and expansion opportunities at the Birchwood Executive Hotel and Conference Centre, the Protea Hotel Richards Bay, the Protea Hotel Marine Port Elizabeth and the Winkler Hotel. Further expansion opportunities at the Mount Grace Country House & Spa and Champagne Sports Resort are being considered.

Investment strategy

The Fund is actively pursuing acquisition opportunities throughout various market segments, with the objective of acquiring properties which further diversify the portfolio and enhance unitholders' returns. The acquisition of hotels with turnaround opportunities are being considered.

During this reporting period the Fund evaluated the possibility of acquiring the City Lodge Group's property portfolio and, as a result, a cautionary announcement was made to unitholders. Based on feedback from the shareholders of City Lodge and further discussions with the management of City Lodge, the Fund's Board resolved not to proceed with the acquisition at that stage.

During the course of the reporting period, the Fund acquired additional sectional title units in the Kopanong Hotel & Conference Centre. An additional 32 units are currently in conveyancing for a total acquisition price of

R11,2 million at an initial forward yield of 12%. This will increase the Fund's shareholding to approximately 93% of the investment in the scheme.

The Fund is currently in negotiations in respect of several potential property acquisitions, details of which will be announced in due course.

Property valuation and net asset value

Independent valuers valued the Fund's portfolio at year-end at R1,161 billion. Given the historic property cost at listing of R997 million, this amounted to a R164 million revaluation gain. The resulting net asset value (NAV) totalled 1 142 cents per unit, which represents an increase of 15,7% from the listing NAV of 987 cents per unit.

At 30 June 2006 the combined units were trading at a 7,2% discount to NAV. This compares favourably to an aggregate 27% premium to NAV for the listed property sector at the same date.

The Fund's NAV increase is as a result of the favourable historic purchase price and the current buoyant conditions in both the property and hospitality industries.

Borrowings

The Fund's weighted average cost of debt is currently 9,19% and the effective gearing ratio is 24,2%. An interest rate swap has been entered into on interest-bearing liabilities of R253 million at an all-in rate of 9,08% per annum, expiring on 10 February 2009, thereby hedging the Funds' exposure to interest rate volatility. The Fund currently has facilities of R175 million available for future investment opportunities.

Units in issue

At 30 June 2006, a total of 72 349 446 units were in issue, comprising 36 174 723 A-linked units and 36 174 723 B-linked units. No additional units were issued during the reporting period.

Liquidity

37,4% of the Fund's units were traded during the four-and-a-half month period.

Future prospects

We believe that the hospitality and property industries in South Africa have significant growth prospects for the medium to long term and that the Fund is well positioned to benefit from these prospects. The World Cup 2010 provides "line of sight" for the development of infrastructure, skills development and associated government funding, all of which bodes well for economic growth and trading conditions.

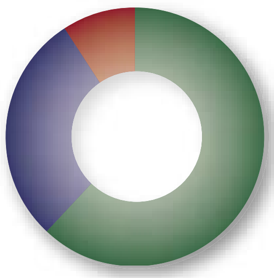
Tourist arrivals growth to date in 2006 has been significant and this is expected to continue during the coming financial year. Domestic tourism is expected to grow at a level which is higher than domestic economic growth during the foreseeable future.

The Fund is seeking to implement a number of development and refurbishment opportunities within the existing portfolio. Operating performance of the C-Corp and variable lease properties are continuously being improved as a result of effective hotel and asset management. To this end, the Board is confident that the forecast distribution for the year ending June 2007 of 100 cents per A-linked unit and 119 cents per B-linked unit as set out in the listing prospectus will be achieved.

The lease expiry profile of the Fund furthermore provides a positive foundation for growth, with an average lease expiry period of more than nine years. Through the C-Corp and variable lease structures, the Fund will continue to benefit from the various properties' operational performance potential.

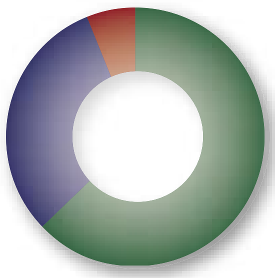
SALIENT FEATURES

Gross Rental Income by Lease Type



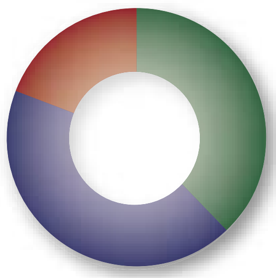
Fixed	62%
C-Corp	29%
Variable	9%

Property Value by Lease Type



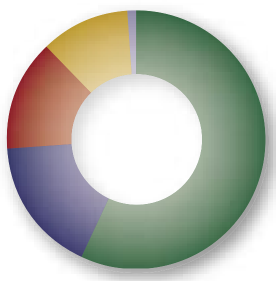
Fixed	63%
C-Corp	31%
Variable	6%

Gross Rental Income by Star Grading



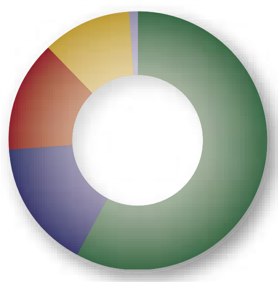
3-Star	38%
4-Star	43%
5-Star	19%

Gross Rental Income by Locality



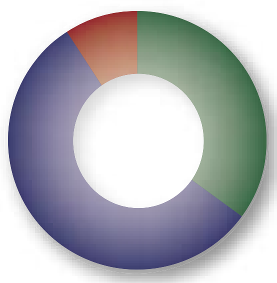
Gauteng	57%
KwaZulu-Natal	17%
Western Cape	14%
Eastern Cape	11%
Mpumalanga	1%

Property Value by Locality



Gauteng	58%
KwaZulu-Natal	16%
Western Cape	14%
Eastern Cape	11%
Mpumalanga	1%

Rooms by Star Grading



3-Star	35%
4-Star	56%
5-Star	9%

GROUP STRUCTURE

HPF Properties

C-Corp leases

Tenant

C-Corp
(Majormatic 194 (Pty) Ltd)

Property	Management company
Mount Grace Country House & Spa	Mount Grace (Pty) Ltd
Protea Hotels Marine PE	Protea Hotel Investments (Pty) Ltd
Protea Hotels Richards Bay	Protea Hotel Investments (Pty) Ltd
rosebank hotel	Rosebank Hotel ManCo (Pty) Ltd
Hotel The Winkler	Winkler Hotel ManCo (Pty) Ltd

Variable

Property

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

tality
RTY FUND

FUND MANAGER

(Pty) Limited

Hospitality Property Fund Managers (Pty) Ltd

leases

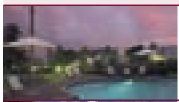
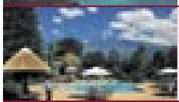
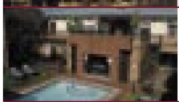
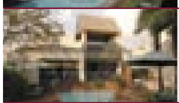
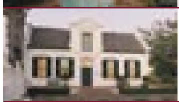
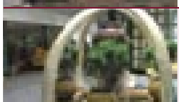
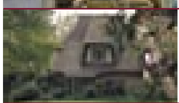
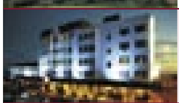
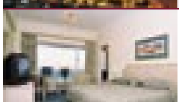
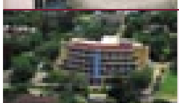
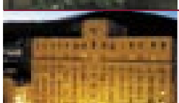
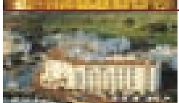
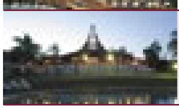
Management Co/Tenant

City Lodge Hotels Limited

Fixed leases

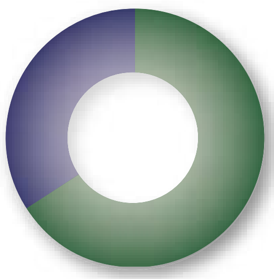
Property	Tenant
Champagne Sports Resort	Champagne Sports Resort (Pty) Ltd
park inn **Greenmarket Square** (68% owned)	Dieter Martin Properties (Pty) Ltd
King David Hotel & Royal Court	Windsharp Trading 33 (Pty) Ltd
Radisson SAS Hotels & Resorts **Waterfront** (65% of 90 units owned)	Conference Centre Properties (Pty) Ltd
kopanong Hotel and Conference Centre (80% owned)	Kopanong Hotel & Conference Centre (Pty) Ltd
Birchwood Executive Hotel & Conference Centre	The Birchwood Management Company (Pty) Ltd

DETAILS OF PROPERTY PORTFOLIO

	No.	Property name	Property title	HPF ownership
	1.	**Birchwood Executive Hotel and Conference Centre**	Freehold	Direct
	2.	**Champagne Sports Resort**	Freehold	Combined share block and direct
	3.	**Courtyard Arcadia**	Freehold	A 50% interest in the shareblock-owning company
	4.	**Courtyard Eastgate**	Freehold	A 50% interest in the shareblock-owning company
	5.	**Courtyard Rosebank**	Freehold	A 32,2% share in the shareblock-owning company
	6.	**Courtyard Sandton**	Freehold	A 25,8% share in the shareblock-owning company
	7.	**Courtyard Cape Town**	Leasehold	A 50% interest in the shareblock-owning company
	8.	**Kopanong Hotel and Conference Centre**	Freehold	Sectional title
	9.	**Mount Grace Country House & Spa**	Freehold	Direct
	10.	**Premier Hotel King David**	Freehold	Direct
	11.	**Protea Hotel Marine**	Freehold	Direct
	12.	**Protea Hotel Richards Bay**	Freehold	Direct
	13.	**The Rosebank Hotel**	Freehold	Direct
	14.	**The Park Inn Hotel**	Freehold	A direct 68% undivided share
	15.	**The Radisson Hotel Waterfront**	Freehold	A 65% undivided share in 90 sectional title units
	16.	**The Winkler Hotel**	Freehold	Direct
		Total		

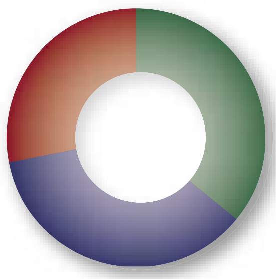
Property location	Star grading	Number of rooms	Agreement type	Cost 30 June 2006 R'000	Valuation 30 June 2006 R'000
Boksburg, Gauteng	3	330	Fixed lease	219 500	299 000
Central Berg, KwaZulu-Natal	4	112	Fixed lease	130 000	144 800
Arcadia, Pretoria, Gauteng	4	69	Variable lease	19 300	21 750
Bruma Lake, Johannesburg, Gauteng	4	69	Variable lease	9 400	14 175
Rosebank, Johannesburg, Gauteng	4	83	Variable lease	12 180	16 300
Sandton, Gauteng	4	69	Variable lease	8 663	10 844
Mowbray, Cape Town, Western Cape	4	70	Variable lease	7 125	7 000
Benoni, Gauteng	4	252	Fixed lease	70 553	83 925
Magaliesburg, Gauteng	5	81	C-Corp lease	121 805	134 500
East London, Eastern Cape	3	80	Fixed lease	52 000	52 000
Port Elizabeth, Eastern Cape	4	98	C-Corp lease	73 673	72 500
Richards Bay, KwaZulu-Natal	3	66	C-Corp lease	22 948	40 000
Rosebank, Johannesburg, Gauteng	4	318	C-Corp lease	68 966	100 000
Cape Town CBD, Western Cape	3	165	Fixed lease	48 000	55 000
Waterfront, Cape Town, Western Cape	5	182	Fixed lease	96 041	98 000
White River, Mpumalanga	4	87	C-Corp lease	9 929	11 350
		2 131		970 083	1 161 144

Patronage by Source Market



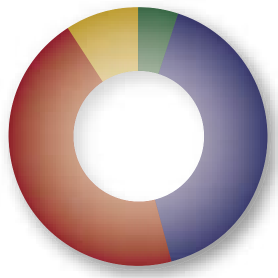
Domestic	66%
Foreign	34%

Patronage by Target Market



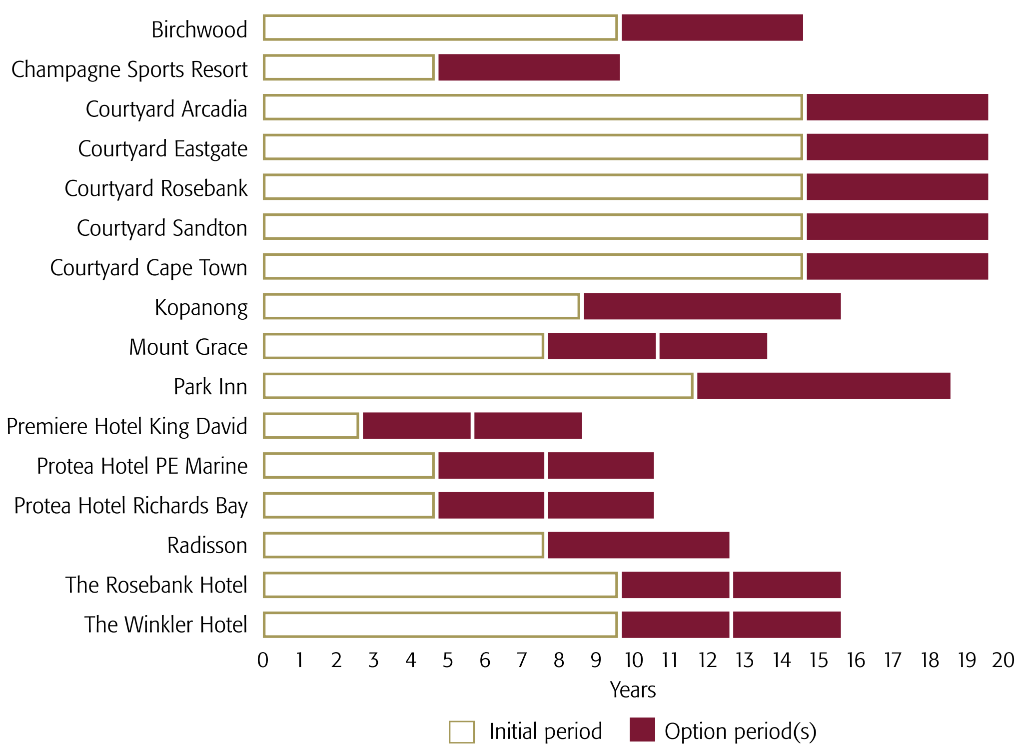
Business	36%
Conference	36%
Leisure	28%

Lease Ageing Profile by Rental Income



1 – 4 years	5%
4 – 8 years	41%
8 – 12 years	45%
12 – 16 years	9%

Lease expiry profile for the property



CORPORATE GOVERNANCE

Introduction

The Fund fully supports the Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance for South Africa 2002 (King II). The board, as the focal point of the company's corporate governance system, fully recognises the need to conduct the business of the company with integrity and transparency and in keeping with certain procedures and policies that have been implemented in accordance with King II in order to ensure good corporate governance.

Board of directors

The board comprises four independent non-executive directors, three non-independent non-executive directors and two executive directors. The two executive directors are the chief executive officer, and the chief financial officer.

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

In line with King II the board comprises a majority of non-executive directors.

In accordance with the articles of association of the company, one third of the non-executive directors shall retire from office at every annual general meeting. Retiring directors shall be eligible for re-election.

The board meets at least quarterly. Additional meetings are convened when necessitated by circumstances.

Formal agendas and board reports are prepared for all board meetings to ensure that matters that require the board's attention are properly addressed. Directors annually declare their interests and where applicable, directors declare their interests in contracts at the quarterly meetings.

Changes during the year

Since the Fund's listing on the JSE on 16 February 2006, the composition of the board has not changed.

Membership and appointments to the Board

Appointments to the board are dealt with by the board as a whole. Nominations are submitted by board members through the chairman to the full board for consideration. No nomination committee has been established for this purpose. Directors are selected to the board on the basis of their personal integrity, business acumen and experience and are required to make meaningful contributions to the activities of the company in the interest of all its stakeholders.

There are no long-term service contracts between any executive director and the company or its subsidiaries.

At 30 June 2006, the board and its committees were constituted as follows:

Board of directors:

Non-executive directors

Independent	T E Sewell (Chairman) K H Abdul-Karrim M S Hoosen B M Madumise
Non Independent	Y Aminzadeh J J P G Bass G A Nelson
Executive directors	B Hutchison (Chief Executive Officer) R Asmal (Chief Financial Officer)

Audit committee	M S Hoosen (Chairman) R Asmal B de Bruyn (Non-board member) T E Sewell
BEE committee	M S Hoosen B M Madumise G A Nelson
Investment committee	K H Abdul-Karrim Y Aminzadeh J J G P Bass M S Hoosen G A Nelson

Left to right: Tim Sewell, Kamil Abdul-Karrim, Bruce Hutchison, Ridwaan Asmal, Brenda Madumise, Justin Bass, Youseph Aminzadeh, Sharif Hoosen, Gerald Nelson.

The board provides strategic direction to the company and monitors management's implementation of the strategies and objectives of the board. Separation exists between executive and non-executive directors and their responsibilities, ensuring an appropriate balance of power – such that no single director can influence the outcome of board decisions.

All directors have access to the chairman, the chief executive officer, the chief financial officer and the company secretary. The company secretary updates the board with changes to relevant legislative or regulatory developments and where necessary involves advisers such as the company's sponsor. Should it prove necessary for any director to obtain independent professional advice in order to promote the best interests of the company and its subsidiaries, all reasonable costs incurred will be borne by the company.

Non-executive directors are remunerated at a fee per annum, with the chairman receiving remuneration in addition to the annual fee, which remuneration is recommended by the audit committee and approved by the board, subject to approval/ratification by the unit holders. Details of these fees are contained in note 12 to the annual financial statements.

Attendance at board meetings

	13 January 2006	23 February 2006	4 April 2006	30 May 2006
K H Abdul-Karrim	✓	✓	✓	✓
Y Aminzadeh	✓	✓	✓	✓
R Asmal	✓		✓	✓
J J P G Bass	✓	✓	✓	✓
M S Hoosen	✓	✓	✓	✓
B Hutchison			✓	✓
B M Madumise	✓	✓	✓	✓
G A Nelson	✓	✓	✓	✓
T E Sewell	✓	✓	✓	✓

Insider trading

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

In line with the listings requirement of the JSE Limited, procedures have been put in place to ensure that no director of the company trades in the linked units of the company without the requisite approval.

Sub-committees

Audit, BEE and Investment committees have been established to assist the board in fulfilling its duties. The audit committee also undertakes the roles of remuneration and risk committees.

In view of the responsibilities of members of these committees beyond their functions as directors, each member is paid remuneration in addition to the annual fee payable to directors. The chairman of each of the committees also receives remuneration in addition to the fee payable to committee members. Remuneration is recommended by the audit committee and approved by the board, subject to approval and/or ratification by the unit holders at the annual general meeting. Further detail of these fees can be found in note 12 to the annual financial statements.

Audit Committee

The members consist of three directors appointed by the board, the majority of whom are independent non-executive directors.

Brigitte de Bruyn, a non-board member was appointed to the audit committee on 13 January 2006. She is a Chartered Accountant, and is the group financial manager of Grapnel Property Group (Pty) Ltd.

The committee meets at least once a year with the external auditors without any executive member of the management company being present. The chief executive officer attends by invitation the meetings at which the interim and final press announcements are tabled for consideration. The chairman in his discretion may invite other executives to attend and be heard at meetings of the committee.

The audit committee meets not less than quarterly. The committee is primarily responsible for:

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

The chairman of the committee is accountable to the board for its activities and makes recommendations to the board concerning the adoption of the annual and interim financial statements and any other matters arising from the above responsibilities.

The external auditors have unrestricted access to the audit committee and its chairman, ensuring that their independence is in no way impaired.

The audit committee met on one occasion during the period under review. All members attended the meeting. The external auditors attended by invitation.

BEE Committee

The board of directors determined recently that a need existed for the constitution of a BEE sub-committee to deal, amongst other matters, with issues surrounding the Property Transformation Charter and ongoing BEE matters. Two independent directors and a non-executive director have been appointed members of the committee. No formal, written terms of reference have yet been adopted.

Investment Committee

The members comprise only non-executive directors. The committee meets on an ad-hoc basis as required, to consider proposals for the acquisitions and sales of investment properties. Proposals believed to be feasible are recommended to the board.

Property Transformation Charter

The company subscribes to the provisions of the Property Transformation Charter and is committed to meeting its targets and requirements. In recognition of this, at the time of listing, the promoters facilitated the creation of an empowerment ownership scheme. A majority black-owned company, Nobuntu Investments (Pty) Ltd (Nobuntu), was established and now effectively owns 14% of the A-linked units in issue.

Nobuntu is jointly owned by Grapnel Property Group (Pty) Ltd (Grapnel) (25,2%), Meago Investments (Pty) Ltd and Khomelela Investments (Pty) Ltd (37,4% each). Grapnel, through its shareholding has negative control rights to prevent Nobuntu from being used for any purposes other than Hospitality's BEE ownership partner.

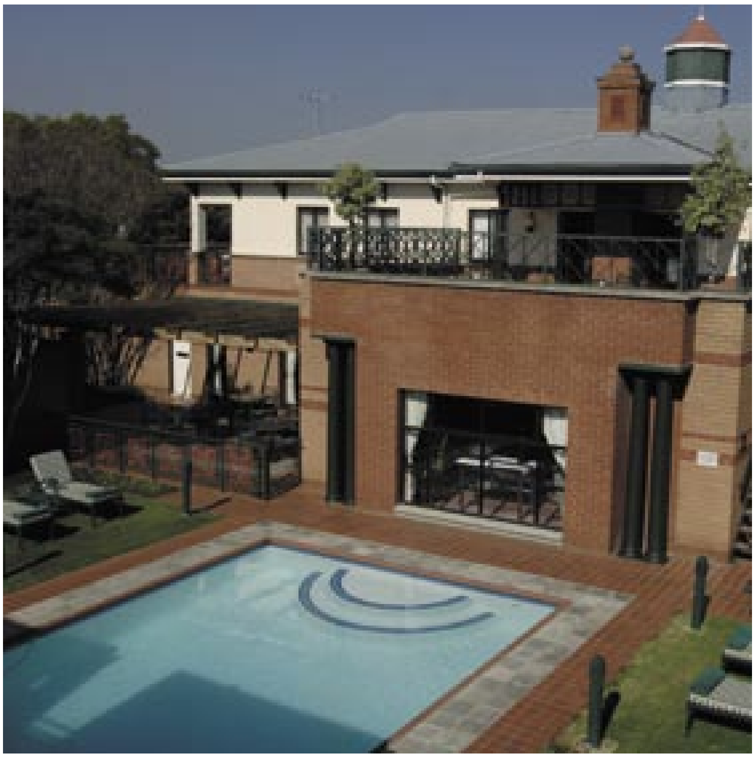
Ongoing BEE initiatives and implementation of the relevant policies and procedures to achieve the charter requirements will be dealt with by the BEE sub-committee.

Communication and investor relation

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

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

The notice of the Annual General Meeting can be found on pages 47 to 51 of this report.



Courtyard Hotels

COURTYARD

'The Fund is actively pursuing acquisition opportunities, throughout various market segments, with the objective of acquiring properties which further diversify the portfolio and enhance unitholders' returns.'

ANNUAL FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The directors are responsible for monitoring the preparation of and the integrity of the financial statements and related information included in this annual report.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the audit committee.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework. There is no indication that there was a breakdown in the functioning of these controls during the period under review.

The external auditors, KPMG Inc., are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and the South African Companies Act. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors believe that the group and the company will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The annual financial statements for the period ended 30 June 2006 set out on pages 26 to 44 were approved by the board of directors on 24 August 2006 and are signed on its behalf by:

T E Sewell
Chairman

B Hutchison
Chief Executive Officer

CERTIFICATE BY THE COMPANY SECRETARY

We hereby certify that for the period ended 30 June 2006, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 1973, as amended, and all such returns are true, correct and up to date.

Hospitality Property Fund Managers (Pty) Ltd
Secretaries

24 August 2006

REPORT OF THE INDEPENDENT AUDITORS

We have audited the annual financial statements and group annual financial statements of Hospitality Property Fund Limited set out on pages 26 to 44 for the period ended 30 June 2006. These financial statements are the responsibility of the company's directors. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 30 June 2006, and the results of their operations and cash flows for the period 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 GM Pickering
Chartered Accountant (SA)
Registered Auditor
Director

24 August 2006

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

DIRECTORS' REPORT

The directors have pleasure in submitting their first report for the period ended 30 June 2006.

Incorporation

The company was incorporated on 10 May 2005 in South Africa under the name Vizirama 165 (Pty) Limited. The name was subsequently changed to Hospitality Property Fund (Pty) Limited by way of a special resolution passed on 2 June 2005. In terms of a special resolution passed on 20 October 2005, Hospitality Property Fund (Pty) Limited was converted to a public company.

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

Hospitality Property Fund Limited holds the property portfolio through its wholly owned subsidiary HPF Properties (Pty) Limited. This subsidiary was incorporated in South Africa on 17 June 2005 under the name Isinda 111 (Pty) Limited and became a wholly owned subsidiary of Hospitality on 29 August 2005. On 6 September 2005, the name was changed to HPT Properties (Pty) Limited and the name was subsequently changed to HPF Properties (Pty) Limited on 13 October 2005.

Nature of business

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

The property portfolio consists of interests in sixteen properties valued at R1,16 billion.

Review of operations

The results of the group and the company are set out in the annual financial statements and are commented on in the Fund Managers report on pages 3 to 11.

Share capital and debentures

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

During the period, 36 174 723 A-linked units and 36 174 723 B-linked units were issued at R10,00 per unit.

Further details of the share capital and debentures are set out in notes 6 and 8 of the annual financial statements.

Directorate

Details of the composition of the Board can be found on page 18.

In terms of the company's articles of association the following directors retire by rotation and they offer themselves for re-election:
Mr K H Abdul-Karrim
Mr Y Aminzadeh
Mr G A Nelson

Directors' interest

The directors' holding of linked units at 30 June 2006 were:

	A-linked units	B-linked units
Direct beneficial		
J J P G Bass*	–	75 100
T E Sewell	30 000	34 800
B M Madumise	46 000	53 360
	76 000	163 260
Indirect beneficial		
Y Aminzadeh	106 392	121 750
BM Madumise	302 940	–
M S Hoosen	637 364	1 814
G A Nelson	730 635	340 676
	1 777 331	464 240

**Subsequent to year-end, 7 800 B-linked units were purchased on 31 August 2006.*

DIRECTORS' REPORT *continued*

During the period ended 30 June 2006, directors carried out the following transactions:

Director	Date	Number of A-linked units	Number of B-linked units	Nature of transaction	Price (Rands)
Y Aminzadeh	3 February 06	22 020	24 760	Private placement participation	10,00 10,00
J J P G Bass	3 February 06	35 000	40 600	Private placement participation	10,00 10,00
M S Hoosen	3 February 06	1 564	1 814	Private placement participation	10,00 10,00
B M Madumise	3 February 06	92 000	106 720	Private placement participation	10,00 10,00
G A Nelson	3 February 06	140 000	162 400	Private placement participation	10,00 10,00
T E Sewell	3 February 06	30 000	34 800	Private placement participation	10,00 10,00
Y Aminzadeh	20 February 06	14 390	14 390	Allocation of linked units, to employees of Horwath Tourism and Leisure Consulting (Pty) Ltd as a bonus	10,00 10,00
B M Madumise	27 May 06	46 000	53 360	Open market sale	13,21 12,75
Y Aminzadeh	29 May 06	20 000	20 000	Open market purchase	12,20 11,90
G A Nelson	29 May 06		42 000	Open market purchase	11,90
J J P G Bass	31 May 06	35 000		Open market sale	11,96
J J P G Bass	8 June 06		34 500	Open market purchase	11,86
G A Nelson	12 June 06		15 000	Open market purchase	11,00
G A Nelson	29 June 06		6 700 43 300	Open market purchase	10,00 10,05

Directors' remuneration
Remuneration of directors is disclosed in note 12 of the annual financial statements.

Management and administration
The group and company are managed by Hospitality Property Fund Managers (Pty) Limited (Manco) in terms of a management agreement concluded on 15 January 2006. The shareholders of Manco are Grapnel Property Asset Managers (Pty) Limited (65%) and Horwath Tourism and Leisure Asset Management (Pty) Limited (35%).

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 annual report.

Company secretary
The secretary of the company is Hospitality Property Fund Managers (Pty) Ltd. The business and postal address of the company is set out on the inside back cover.

Subsidiary company
Information relating to the company's interest in its subsidiary is detailed in note 3 of the annual financial statements.

BALANCE SHEETS

as at 30 June 2006

	Note	GROUP 2006 R'000	COMPANY 2006 R'000
ASSETS			
Non-current assets		1 161 144	749 400
Investment properties	2	1 159 367	–
Straight-line rental income accrual	2	1 777	–
Investment in subsidiary	3	–	749 400
Current assets		21 614	–
Trade and other receivables	4	17 260	–
Cash and cash equivalents	5	4 354	–
Total assets		1 182 758	749 400
EQUITY AND LIABILITIES			
Equity		146 303	39 464
Share capital and share premium	6	39 464	39 464
Retained income		980	–
Fair value reserve	7	105 859	–
Non-current liabilities		987 363	680 085
Debentures	8	680 085	680 085
Interest-bearing liabilities	9	251 272	–
Derivative liability	9	8 550	–
Deferred taxation	10	47 456	–
Current liabilities		49 092	29 851
Trade and other payables	11	19 241	–
Debenture interest payable		29 851	29 851
Total equity and liabilities		1 182 758	749 400

	A units	B units	Total
Net asset value per linked unit (R)	11,42	11,42	22,84

INCOME STATEMENTS

for the period ended 30 June 2006

	Note	GROUP 2006 R'000	COMPANY 2006 R'000
Revenue		48 970	–
Rental income – contractual		47 193	–
– straight-line accrual		1 777	–
Expenditure		(6 355)	–
Property and other operating expenses		(6 355)	–
Operating profit	12	42 615	–
Listing expenses		(1 604)	–
Net finance costs		(40 031)	–
Interest received	13	1 586	29 851
Interest paid	13	(11 766)	–
Debenture interest		(29 851)	(29 851)
Profit before fair value adjustments		980	–
Fair value adjustments		153 315	–
Revaluation of investment properties		163 642	–
Straight-line rental income accrual		(1 777)	–
Interest rate swaps		(8 550)	–
Profit before taxation		154 295	–
Taxation	14	(47 456)	–
Profit for the period		106 839	–

	Note	A units	B units	Total
GROUP				
Distribution per linked unit (cents)	15	37,40	45,12	82,52
Basic earnings per share (cents)	15	147,67	147,67	295,34
COMPANY				
Distribution per linked unit (cents)	15	37,40	45,12	82,52

STATEMENTS OF CHANGES IN EQUITY

for the period ended 30 June 2006

	Share capital R'000	Share premium R'000	Retained income R'000	Fair value reserve R'000	Total R'000
GROUP					
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Profit for the period/total income and expenses for the period			106 839		106 839
Transfer to/(from) fair value reserve – revaluation of investment properties (net of deferred tax)			(116 186)	116 186	–
Transfer to/(from) fair value reserve – straight-line rental income			1 777	(1 777)	–
Transfer to/(from) fair value reserve – interest rate swaps			8 550	(8 550)	–
Balance at 30 June 2006	7	39 457	980	105 859	146 303
COMPANY					
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Profit for the period/total income and expenses for the period					–
Balance at 30 June 2006	**7**	**39 457**	**–**	**–**	**39 464**

CASH FLOW STATEMENTS

for the period ended 30 June 2006

	Note	GROUP 2006 R'000	COMPANY 2006 R'000
Cash flows from operating activities			
Cash generated from operations	16	41 215	–
Interest received	13	1 586	29 851
Interest paid	13	(11 766)	–
Net cash inflow from operating activities		31 035	29 851
Cash flows from investing activities			
Acquisition of investment properties	17	(997 502)	–
Loan advanced to subsidiary		–	(749 400)
Net cash outflow from investment activities		(997 502)	(749 400)
Cash flows from financing activities			
Proceeds from the issue of linked units		723 494	723 494
Share issue expenses		(3 945)	(3 945)
Interest-bearing liabilities raised		251 272	–
Net cash inflow from financing activities		970 821	719 549
Cash and cash equivalents at end of the period		4 354	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the period ended 30 June 2006

1. ACCOUNTING POLICIES

Hospitality Property Fund Limited (the company) is a company domiciled in South Africa. The consolidated financial statements of the company for the year ended 30 June 2006 comprise the company and its subsidiary (together referred to as the "group"). The financial statements were authorised for issue by the directors on 24 August 2006.

1.1 Statement of compliance

The financial statements and group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the interpretations adopted by the International Accounting Standards Board and the requirements of the Companies Act of South Africa, 1973.

1.2 Basis of preparation

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

The accounting policies set out below have been applied consistently by all group entities.

1.3 Basis of consolidation

The consolidated financial statements include those of the company and its subsidiaries. The results of subsidiaries acquired or disposed of during the period are included from the effective dates of acquisition to the effective dates of disposal.

Subsidiaries are those entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiares 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 subsidiares are carried at cost less impairment losses.

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

1.4 Investment properties

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the period ended 30 June 2006

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

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

1.5 Financial instruments

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

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

1.5.1 Cash and cash equivalents

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

1.5.2 Trade and other receivables

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

1.5.3 Trade and other payables

Trade and other payables are stated at amortised cost.

1.5.4 Other financial liabilities

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

1.5.5 Derivative financial instruments

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

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

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

1.6 Offset

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

1.7 Impairment

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

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

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

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

1.8 Share capital and share premium

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

1.9 Provisions

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

1.10 Revenue recognition

1.10.1 Rental income

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

1.10.2 Finance income

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

1.11 Expenses

1.11.1 Letting costs

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the period ended 30 June 2006

1.11.2 Finance costs

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

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

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

1.12 Taxation

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

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

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

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

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

1.13 Segment reporting

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

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

1.14 Forthcoming requirements

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. None of these forthcoming requirements will have a material impact on the company's financial statements.

	GROUP 2006 R'000	COMPANY 2006 R'000
2. INVESTMENT PROPERTIES		
Acquisition cost	997 502	–
Change in fair value of investment properties	163 642	–
Straight-line rental income accrual	(1 777)	–
Fair value at end of period	1 159 367	–

The investment property portfolio serves as collateral against loans from funding banks.

Investment properties were independently valued at 30 June 2006. The valuation of the portfolio was split between the following registered valuers:

Mr R A Long, BSc, MBA, FRICS MIV (SA), Chartered Valuation Surveyor and Mr A D Edwards, FRICS MIV (SA), Chartered Valuation Surveyor

The valuation was undertaken using the income capitalisation approach. A discounted cash flow analysis was carried out to validate the market value as determined by the income capitalisation method.

A summary of the valuation is reflected on page 16 of the report.

	GROUP 2006 R'000	COMPANY 2006 R'000
3. INVESTMENT IN SUBSIDIARY		
HPF Properties (Pty) Ltd (100% direct holding)		
Shares at cost (R120)		–
Loan to subsidiary		749 400
		749 400

The subsidiary's principal activity is investment in properties in the hotel and leisure sector. The subsidiary has an issued share capital of R120 and is wholly owned by the company. The loan to HPF Properties (Pty) Ltd has no fixed terms of repayment and bears interest at a rate not less than 99,99% of the net profit of HPF Properties (Pty) Ltd as defined in the debenture trust deed. Interest is payable six monthly.

An amount of R29,851 million has been paid as interest to the holding company during this period.

	GROUP 2006 R'000	COMPANY 2006 R'000
4. TRADE AND OTHER RECEIVABLES		
Variable rentals	6 537	–
Sundry debtors	6 852	–
Prepayments	3 557	–
Rental debtors	314	–
	17 260	–
5. CASH AND CASH EQUIVALENTS		
Comprises bank balances of current and call accounts	4 354	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the period ended 30 June 2006

	GROUP 2006 R'000	COMPANY 2006 R'000
6. SHARE CAPITAL AND SHARE PREMIUM		
Share capital		
Authorised		
A shares – 200 000 000 ordinary shares of R0,0001 each	20	20
B shares – 200 000 000 ordinary shares of R0,0001 each	20	20
Issued		
A shares – 36 174 723 ordinary shares of R0,0001 each	3,6	3,6
B shares – 36 174 723 ordinary shares of R0,0001 each	3,6	3,6
	7,2	7,2
Each share is linked to a debenture, which together forms a linked unit.		
The unissued shares are under the control of the directors of the company subject to the provisions of the Companies Act, 1973 and the requirements of the JSE.		
Share premium		
Premium on share issue	43 402	43 402
Share issue expenses	(3 945)	(3 945)
	39 457	39 457
Share capital and share premium	39 464	39 464
7. FAIR VALUE RESERVE		
Revaluation of investment properties (net of deferred tax)	116 186	–
Transfer of straight-line rental accrual	(1 777)	–
Revaluation of interest rate swap	(8 550)	–
	105 859	–
8. DEBENTURES		
Issued	680 084,80	680 084,80
A debentures – 36 174 723 debentures at R 9,40 each	340 042,40	340 042,40
B debentures – 36 174 723 debentures at R 9,40 each	340 042,40	340 042,40

Each debenture is linked to a share, which together forms a linked unit. The aggregate distribution of interest on the linked units will be not less than 99,99% of the net income as defined in the debenture trust deed. Interest distributions will be payable six-monthly.

The debentures are redeemable at their nominal value at the instance of the debenture holders any time after 25 years after the date of allotment. The right of redemption may be exercised only by special resolution of the debenture holders. Upon passing of the special resolution the debentures shall be redeemed by the company at their nominal value on the last Friday prior to the fifth anniversary of the special resolution.The Debenture Trust Deed is available for inspection by linked unit holders or their duly authorised agents at the registered office of the company.

The rights of debenture holders to repayment are subordinate 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 2006 R'000	COMPANY 2006 R'000
9. INTEREST-BEARING AND DERIVATIVE LIABILITIES		
9.1 Interest-bearing liabilities	251 272	–
Absa Bank Limited	125 636	–
Interest is payable at JIBAR plus 1,8% on a nominal annual compounded monthly basis.		
Standard Bank of South Africa Limited	125 636	–
Interest is payable at JIBAR plus 1,5% on a nominal annual compounded monthly basis.		
The above joint loans with Absa Bank Limited and Standard Bank of South Africa Limited are secured in terms of a first mortgage bond over investment properties with a market value of R1 116 million and a cession of leases and rentals in respect of bonded properties. The loans with a capital repayment of R126,5 million each are repayable on 10 February 2012.		
Hospitality Property Fund applies all surplus cash to its floating facilities to reduce gearing and interest rate costs. At year end date all floating facilities were repaid.		
In terms of its articles of association the borrowing powers of the company, excluding the debentures, are limited to 65% of the valuation of the group's property portfolio.		
9.2 Derivative liabilities		
Absa Bank Limited	8 550	–
An interest rate swap has been entered into on interest-bearing liabilities of R253 million at a rate of 7,43% per annum linked to JIBAR from 10 February 2006 to 10 February 2009.		
10. DEFERRED TAXATION		
Change in fair value of investment properties	47 456	–
Deferred tax has been calculated at 29% in respect of changes in fair value of investment properties.		
11. TRADE AND OTHER PAYABLES		
Retentions	13 655	–
Trade payables	5 007	–
Tenant deposits	488	–
VAT payable	91	–
	19 241	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the period ended 30 June 2006

	GROUP 2006 R'000	COMPANY 2006 R'000
12. OPERATING PROFIT		
Operating profit is stated after charging the following:		
Auditors' remuneration		
– Audit fee	300	–
Directors' emoluments	450	–
Management fees payable to Hospitality Property Fund Managers (Pty) Limited	4 397	–
Property and other expenses were incurred to generate rental income.		
12.1 Directors' emoluments		
Fees for services as directors		
Non-executive		
T E Sewell (Chairman)	73	–
K H Abdul-Karrim	60	–
Y Aminzadeh (paid to Horwath Tourism and Leisure Asset Management (Pty) Limited)	60	–
J J P G Bass	60	–
M S Hoosen (paid to Meago (Pty) Limited)	79	–
B M Madumise	54	–
G A Nelson	64	–
	450	–
Executive		
B Hutchison	–	–
R Asmal	–	–
	–	–
Executives' remuneration packages were borne by Hospitality Property Fund Managers (Pty) Ltd.		
13. INTEREST RECEIVED		
Tenants and positive bank balances	1 586	–
Subsidiary	–	29 851
	1 586	29 851
INTEREST PAID		
Interest-bearing liabilities	(11 766)	–
14. TAXATION		
Deferred taxation	47 456	–
No provision has been made for current taxation as the group has no taxable income for the period.		
Reconciliation of taxation rate		
Current taxation rate	29,0%	–
Listing costs not included in distribution	0,2%	–
Interest rate swap	1,6%	–
Effective taxation rate	30,8%	–

Deferred tax assets are recognised on deductible temporary differences to the extent that they offset deferred tax liabilities arising from taxable temporary differences. A deferred tax asset has not been recognised in respect of net deductible temporary differences because in practice all taxable income is distributed to linked unitholders.

	GROUP 2006 R'000	COMPANY 2006 R'000
15. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT		
Profit for the period	106 839	–
Adjustments: Debenture interest	29 851	29 851
Earnings (linked-units)	136 690	29 851
Adjustments: Fair value – investment properties revaluation (net of taxation)	(116 186)	–
– straight-line rental income	1 777	–
Headline earnings (linked-units)	22 281	29 851
Listing expenses not included in distribution	797	–
Fair value – interest rate swaps	8 550	–
Straight-line rental income	(1 777)	–
Distributable earnings	29 851	29 851

	A units	B units	Total
Number of units	36 174 723	36 174 723	
GROUP			
Distribution per linked unit (cents)	37,40	45,12	82,52
Earnings per linked unit (cents)	188,93	188,93	377,86
Headline earnings per linked unit (cents)	30,80	30,80	61,60
Basic earnings per share (cents)	147,67	147,67	295,34
COMPANY			
Distribution per linked unit (cents)	37,40	45,12	82,52
Earnings per linked unit (cents)	37,40	45,12	82,52
Headline earnings per linked unit (cents)	37,40	45,12	82,52
Basic earnings per share (cents)	–	–	–

	GROUP 2006 R'000	COMPANY 2006 R'000
16. NOTES TO THE CASH FLOW STATEMENTS		
Cash generated from operations		
Profit before taxation	154 295	–
Adjusted for: Net finance costs	40 031	–
Straight-lining of rental	(1 777)	–
Fair value adjustments	(153 315)	–
	39 234	–
Changes in working capital	1 981	–
Increase in trade and other receivables	(17 260)	–
Increase in trade and other payables	19 241	–
	41 215	–
17. ACQUISITION OF INVESTMENT PROPERTIES		
Amount per balance sheet	1 161 144	–
Fair value adjustments	(163 642)	–
	997 502	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*

for the period ended 30 June 2006

	GROUP 2006 R'000	COMPANY 2006 R'000
18. CAPITAL COMMITMENTS		
Authorised and committed	989	–
The capital expenditure will be funded from existing funding facilities.		
19. CONTINGENT LIABILITIES		
The group has a dispute with the vendors of the Protea Marine for R3,2 million. The vendor is claiming that the movables were not included in the purchase price. Attorneys have been appointed to refute the vendor's claim and defend any action instituted.		
20. MINIMUM LEASE RENTALS RECEIVABLE		
At 30 June 2006 the group had contracts with tenants for the following minimum lease rentals:		
Less than one year	89 706	–
Between one and five years	335 764	–
More than five years	257 549	–
	683 019	–
21. RELATED-PARTY TRANSACTIONS		
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party making financial or operational decisions.		
The following transactions were carried out with related parties during the period:		
Hospitality Property Fund Managers (Pty) Ltd (Manco) *Shareholders: Grapnel Property Asset Managers (Pty) Ltd (Grapnel) and Horwath Tourism and Leisure Asset Management (Pty) Ltd (Horwath)*		
Brokerage fee paid by group on listing	19 445	–
Management fee paid by group	4 397	–
Relationship – Fund manager and directorial.		
Majormatic 194 (Pty) Ltd (C-Corp) *Shareholders: Grapnel and Horwath*		
Rental received by group	13 682	–
Relationship – shareholding of Manco and directorial.		
Rosebank Hotel Management Company (Pty) Ltd *Shareholders: Grapnel and Horwath*		
Management fee paid by hotel	963	–
Relationship – shareholding of Manco and directorial.		
Winkler Hotel Management Company (Pty) Ltd *Shareholders: Grapnel and Horwath*		
Management fee paid by hotel	51	–
Relationship – shareholding of Manco and directorial.		

	GROUP 2006 R'000	COMPANY 2006 R'000

22. FINANCIAL RISK MANAGEMENT

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

Credit risk

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

Interest rate risk

The only exposure to interest rate risk relates to the interest-bearing liabilities, details of which are disclosed in note 9.

The company has entered into a swap contract starting on 10 February 2006, whereby R253 million has been fixed (excluding margins) at 7,43% for three years.

The fair value of the swap is estimated at R8,5 million based on the market value of similar instruments at the balance sheet date.

Cash and cash equivalents

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

Liquidity risk

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

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

The company's utilised borrowing capacity at 30 June 2006 can be summarised as follows:

	GROUP 2006 R'000	COMPANY 2006 R'000
Property valuation	1 161 144	
65% thereof	754 744	
Borrowings and unitholders for distribution	281 123	
Unutilised borrowing capacity	473 621	
Facilities available in terms of existing agreements	425 000	
Gearing ratio (%)	24,2	

23. COMPARATIVES

Comparatives have not been presented for the group as the group was only formed on 29 August 2005.

The company was dormant in the previous financial period. Comparatives comprised share capital of R120 and loans receivable of R120.

SEGMENTAL INFORMATION

for the period ended 30 June 2006

Group segmental analysis

PRIMARY SEGMENTS

On a primary basis the group is organised into four segments:
Fixed lease agreements – lease agreements where the major portion of the rental is fixed.
C-Corp lease agreements – lease agreements with Majormatic 194 (Pty) Ltd based on approximately 50% of the rental being fixed and the remaining being a variable rental equivalent to 90% of the hotels' EBITDA after deducting the fixed rental portion.
Variable lease agreements – based on EBITDA with operators covering the properties in the Courtyard portfolio.
Corporate – Expenditure, assets and liabilities not directly allocated to a segment.

R'000	Fixed lease agreements	C-Corp lease agreements	Variable lease agreements	Corporate	Total
INCOME STATEMENT					
Segment revenue	31 224	13 693	4 053	–	48 970
Expenditure				(6 355)	(6 355)
Segment operating results	31 224	13 693	4 053	(6 355)	42 615
Listing expenses				(1 604)	(1 604)
Net finance costs				(40 031)	(40 031)
Profit before fair value adjustments and taxation	31 224	13 693	4 053	(47 990)	980
Fair-value adjustments	114 853	61 028	13 402	(35 968)	153 315
Profit before taxation	146 077	74 721	17 455	(83 958)	154 295
Taxation				(47 456)	(47 456)
Segment result	146 077	74 721	17 455	(131 414)	106 839
BALANCE SHEET					
Non-current assets					
Investment properties*	732 725	358 350	70 069	–	1 161 144
Current assets					
Trade and other receivables	1 761	4 893	1 175	9 431	17 260
Cash and cash equivalents				4 354	4 354
Segment assets	734 486	363 243	71 244	13 785	1 182 758
LIABILITIES					
Non-current liabilities					
Debentures				680 085	680 085
Interest-bearing liabilities				251 272	251 272
Derivative liability				8 550	8 550
Deferred taxation				47 456	47 456
Current liabilities					
Trade and other payables	14 143	–	–	5 098	19 241
Debenture interest payable				29 851	29 851
Segment liabilities	14 143	–	–	1 022 312	1 036 455

**Acquisition of segment assets/capital expenditure for the period*

SEGMENTAL INFORMATION *continued*

for the period ended 30 June 2006

Group segmental analysis

SECONDARY SEGMENT

R'000	Gauteng	Western Cape	KwaZulu-Natal	Eastern Cape	Mpumalanga	Corporate	Total
INCOME STATEMENT							
Segment revenue	28 779	6 702	8 190	5 018	281		48 970
Expenditure						(6 355)	(6 355)
Segment operating results	28 779	6 702	8 190	5 018	281	(6 355)	42 615
Listing expenses						(1 604)	(1 604)
Net finance costs						(40 031)	(40 031)
Profit before fair value adjustments and taxation	28 779	6 702	8 190	5 018	281	(47 990)	980
Fair-value adjustments	150 127	8 834	31 852	(1 173)	1 421	(37 746)	153 315
Profit before taxation	178 907	15 535	40 042	3 845	1 702	(85 736)	154 295
Taxation						(47 456)	(47 456)
Segment result	178 907	15 535	40 042	3 845	1 702	(133 192)	106 839
BALANCE SHEET							
Non-current assets							
Investment properties*	680 494	160 000	184 800	124 500	11 350	–	1 161 144
Current assets							
Trade and other receivables	4 345	82	1 199	1 227	–	10 407	17 260
Cash and cash equivalents						4 354	4 354
Segment assets	684 839	160 082	185 999	125 727	11 350	14 761	1 182 758
Non-current liabilities							
Debentures						680 085	680 085
Interest-bearing liabilities						251 272	251 272
Derivative liability						8 550	8 550
Deferred taxation						47 456	47 456
Current liabilities							
Trade and other payables	6 666	–	6 988	488	–	5 099	19 241
Debenture interest payable						29 851	29 851
Segment liabilities	6 666	–	6 988	488	–	1 022 313	1 036 455

**Acquisition of segment assets/capital expenditure for the period.*

DISTRIBUTION POLICY

1. DISTRIBUTION FOR THE A DEBENTURES

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

1.1 for the second distribution period ended 30 June 2006, a semi-annualised return of 5,15% on the nominal value of the A debentures;

1.2 for the first distribution period ended 31 December 2006, a return of 5,28% on the nominal value of the A debentures;

1.3 for the second distribution period ended 30 June 2007, a return equal to the distribution for the second distribution period for the year ended 30 June 2006, escalated by 5%;

1.4 for the first distribution periods for the financial years ended June 2008 to 2012, a return equal to the determined or calculated distribution for the corresponding first distribution period for the prior year, escalated by 5%;

1.5 for the second distribution periods for the financial years ended June 2008 to 2012, a return equal to the determined or calculated second distribution for the corresponding second distribution period for the prior year, escalated by 5%;

1.6 for the first distribution periods and second distribution periods thereafter, to repayment of the A debentures, a return equal to the determined or calculated distribution for the corresponding distribution period for the prior year, escalated by the lesser of 5% or CPIX; *[Clause 5.1 of the first supplemental debenture trust deed].*

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

2. DISTRIBUTION FOR THE B DEBENTURES

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

ANALYSIS OF UNITHOLDERS

	"A" linked units			"B" linked units		
Range of shareholders	Holders	Units	% of issued capital	Holders	Shares	% of issued capital
1 – 100	35	3 135	0,01	7	634	0,00
101 – 1 000	384	195 851	0,54	315	164 036	0,45
1 001 – 50 000	407	2 413 438	6,67	1 808	12 037 130	33,28
50 001 – 100 000	18	1 417 189	3,92	24	1 684 819	4,66
100 001 – 10 000 000	55	32 145 110	88,86	44	22 288 104	61,61
Total	**899**	**36 174 723**	**100,00**	**2 198**	**36 174 723**	**100,00**
Type of unitholders						
Banks/Nominee companies	6	2 665 228	7,37	7	2 312 188	6,39
Other corporate bodies	42	13 915 358	38,47	61	8 438 047	23,33
Other companies	24	1 256 752	3,47	41	1 594 964	4,41
Individual	765	7 243 465	20,02	1 995	16 876 275	46,65
Insurance companies	25	3 524 883	9,74	28	2 674 582	7,39
Investment trusts	25	5 449 359	15,06	54	3 239 441	8,96
Pension funds	12	2 119 678	5,87	12	1 039 226	2,87
Total	**899**	**36 174 723**	**100,00**	**2 198**	**36 174 723**	**100,00**
Unitholders holding more than 5%						
Coronation Asset Management Group		8 096 460	22,38			
National Empowerment Fund		2 523 165	6,97			
Nobuntu Investments (Pty) Ltd		5 000 000	13,82			
Total		**15 619 625**	**43,17**			
Metope Investments Holdings (Pty) Ltd					2 576 462	7,12
The Board of Executors Noms No. 1					2 227 366	6,16
Total					**4 803 828**	**13,28**
Public and non-public unitholders						
Non-public	7	6 853 331	18,95	6	627 501	1,73
Public	892	29 321 392	81,05	2 192	35 547 222	98,27
Total	**899**	**36 174 723**	**100,00**	**2 198**	**36 174 723**	**100,00**

Note: *In terms of the JSE Limited Listings Requirements, the holdings of the directors and any single unitholder holding more than 10% are excluded from the definition of public. Fund asset managers are regarded as being public unitholders.*

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2005/014211/06)

Share code for A linked units: HPA
ISIN for A linked units: ZAE000076790
Share code of B linked units: HPB
ISIN for B linked units: ZAE000076808
("Hospitality" or "the company")

Notice is hereby given that the second annual general meeting of shareholders of Hospitality Property Fund Limited will be held at The Rosebank Hotel, corner Tyrwhitt and Sturdee Avenues, Rosebank, Johannesburg on Tuesday, 31 October 2006 at 10:00 to conduct the following business:

ORDINARY BUSINESS

1. To receive and consider the annual financial statements of the company and the group for the period ended 30 June 2006 together with the reports of the directors and auditors thereon.

2. To re-elect the following directors, who in terms of article 15.1 and 15.2 of the company's Articles of Association retire by rotation, and being eligible, offer themselves for re-election:

   Y Aminzadeh

   Youseph completed a Bachelors Degree in Business Administration with Honours from Webster University in The Netherlands and was awarded a Masters of Business Administration degree from Trinity College in the United States. He further carried out studies in Management at Carnegie Mellon University in the United States in 1985.

   Youseph has had more than 20 years experience in the tourism and hospitality industry. He has also served on various tourism committees in South Africa, held the Chairmanship of South African Trainers, Consultants & Service Providers for the Hospitality Industry ("SATCHI"), and sat on the Federated Hotel Industry of South Africa (FEDHASA) Regional Management Board.

   K H Abdul-Karrim

   Kamil initially trained as an accountant and spent the earlier part of his career in accounting and finance, fulfilling the role of CFO for two global companies in the service environment. He then embarked on post-graduate studies completing the PDM-Public Policy Department and Administration at the University of the Witwatersrand in 1996 and went on to obtain an MBA from Bond University in Australia during 1998. Kamil has the unique dynamic of having both financial and strategic/marketing skills. Kamil recently left his position as Director of Strategic Marketing at Southern Sun and is currently working as an independent consultant focusing on the hotel industry.

   G A Nelson

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

Gerald obtained a BSc Building Degree from the University of the Witwatersrand in 1977. He commenced his career in the construction industry, later moving into project management as a partner in a firm of specialist project managers. Following this, he spent five years with Old Mutual Properties as development manager, joining UAL Merchant Bank in 1995, where he was responsible for property development on behalf of the bank, Sycom and Newport Property Funds. In 1997 he was appointed managing director of Sycom Property Fund Managers Limited ('SPFM'), the management company for Sycom Property Fund, a property unit trust listed on the JSE Limited. Following the sale of shares in Sycom Property Fund Managers (Pty) Ltd to Parkdev (Pty) Ltd, Gerald stepped down as managing director and serves on the board of SPFM as a non-executive director. Gerald is a past chairman of the Association of Property Unit Trust Management Companies. Gerald is also currently the managing director and a shareholder of Grapnel Property Group (Pty) Ltd.

3. To approve the non-executive directors' fees for the period ended 30 June 2006 (refer note 12.1 on page 39).

4. To approve the non-executive directors' fees payable for the period 1 July 2006 to 30 June 2007. (It is proposed that the non-executive directors' fees for the forthcoming year remain unchanged).

5. To re-appoint KPMG Inc. as auditors of the company.

6. To consider and, if deemed fit, to pass with or without modification, the following special and ordinary resolutions set out below;

6.1 Special resolution number 1: Repurchase of shares

"Resolved that the directors be authorised by way of a general authority until the date of the next annual general meeting of the company (provided that this authority shall not extend beyond 15 months from the date of passing of this resolution), to approve the repurchase by the company of its "A" and "B" shares, subject to the company's Articles of Association, the JSE Limited ("JSE") Listings Requirements, and the Companies Act, 61 of 1973, as amended ("Companies Act"), on the following basis: [5.72(c)]

a. each repurchase of "A" or "B" shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party; [5.72(a)]
b. the number of "A" and "B" shares respectively which may be acquired pursuant to this authority in any financial year may not in the aggregate exceed 20% of the company's share capital of the relevant class, in any one financial year (or such other percentage permitted from time to time by the JSE for repurchases); [5.68]
c. repurchases may not be made at a price greater than that permitted pursuant to the Listings Requirements of the JSE; [5.72(d)]
d. repurchases may not take place during a prohibited period; [5.72(g)]
e. the company shall, as soon as it has, on a cumulative basis repurchased "A" or "B" shares, as the case may be, which constitute 3% of the initial number of shares of such class in issue (at the time that authority from shareholders for the repurchase was granted), and for each 3% in aggregate of the initial number of such class of shares acquired thereafter, publish an announcement to such effect, or any other announcement(s) that may be required in such regard in terms of the JSE Listings Requirements which may be applicable from time to time; [11.22]
f. the company and the group will be in a position to repay their debt in the ordinary course of business for a period of 12 months from the company first acquiring securities under this general approval and subject to [j] below; [5.69(c) (i)] [11.26 (d) (i)]

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS *continued*

g. the consolidated assets of the company, being fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the consolidated liabilities of the company at the time of the company first acquiring securities under this general approval and subject to [j] below; [5.69(c) (ii)] [11.26 (d) (ii)]

h. the ordinary capital and reserves of the company and the group will be adequate for a period of 12 months from the company first acquiring securities under this general approval and subject to [j] below; [5.69 (c) (iii)] [11.26 (d) (iii)]

i. the available working capital will be adequate to continue the operations of the company and the group for a period of 12 months from the company first acquiring securities under this general approval and subject to [j] below; and [5.69(c) (iv)] [11.26 (d) (iv)]

j. upon entering the market to proceed with the repurchase, the company's Sponsor has complied with its responsibilities contained in Schedule 25 of the JSE Listings Requirements. (2.12 and Schedule 25)"

Reason for and effect of special resolution number 1

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

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

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

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

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

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

- Directors – page 18 [7.B.1]
- Major beneficial linked unitholders – page 46 [7.A.27]
- Directors interests in linked units – page 26 [7.B.20]
- Share and debenture capital of the company – page 37 [7.B.4] [7.A.5]

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

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

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

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

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

6.2 Ordinary resolution number 1: Control of authorised but unissued shares
"Resolved that the unissued "A" shares and "B" shares in the authorised capital of the company be and are hereby placed under the control of the directors of the company to allot and issue, subject to the Companies Act, the company's memorandum and articles of association and the Listings Requirements of the JSE, provided that each "A" share shall be linked to one "A" debenture and that each "B" share shall be linked to one "B" debenture, such authority to expire at the next annual general meeting of the company."

6.3 Ordinary resolution number 2: Issue of shares for cash
"Resolved that the directors be and they are hereby authorised, until this authority lapses at the next annual general meeting of the company, provided that this authority shall not extend beyond 15 months from the date of this annual general meeting, to allot and issue "A" shares and "B" shares for cash, subject to the Listings Requirements of the JSE and the Companies Act on the following basis:

a. each "A" share shall be linked to one "A" debenture of R9,40 and each "B" share shall be linked to one "B" debenture of R9,40;
b. the allotment and issue of shares for cash shall be made only to persons qualifying as public shareholders as defined in the Listings Requirements of the JSE; [5.52(b)]
c. the number of "A" shares and "B" shares, as the case may be, issued for cash shall not in aggregate in any one financial year of the company exceed 10% of the company's issued shares of the relevant class. 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 irrevocable fully and underwritten) or acquisition (concluded and final terms announced) may be included as though they were shares of the relevant class in issue at the date of application; [5.52(c)(i) & (iii)]
d. the maximum discount at which "A" linked units or "B" linked units, as the case may be, may be issued in terms of this authority is 10% of the weighted average trade price on the JSE of the relevant linked units over 30 business days prior to the date on which the price of the issue is determined or agreed by the directors of the company; [5.52(d)]
e. the company shall, after the company has issued shares of the relevant class as part of an issue of linked units for cash which represent, on a cumulative basis within a financial year, 5% or more of the number of shares of the relevant class in issue prior to the issue, publish an announcement containing full details of the issue (including the

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS *continued*

number of linked units issued, the average discount to the weighted average traded price of the linked units over the 30 days prior to the date that the price was determined and the effect of the issue on the net asset value, earnings per linked unit and headline earnings per linked unit, or any other announcements(s) that may be required in such regard in terms of the JSE Listings Requirements which may be applicable from time to time; [11.22]

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

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

6.4 Ordinary resolution number 3: Signature of documentation

"Resolved that any director of the company be and is hereby authorised on behalf of the company to sign any documents necessary in order to give effect to the above resolutions."

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

Voting and proxies

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

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

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

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

The transfer secretaries of the company, namely Computershare Investor Services 2004 (Proprietary) Limited, must receive forms of proxy by no later than 10:00 on Friday, 27 October 2006. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting should the shareholder decide to do so.

By order of the board

Hospitality Property Fund Managers (Proprietary) Limited

Secretaries

24 August 2006

SHAREHOLDERS' DIARY

Event	Date
Financial year-end	30 June
Annual general meeting	31 October 2006
Announcement of interim results (published and posted)	February
Announcement of annual results (published)	August
Annual report posted to unitholders	September

Distribution timetable	
Distribution No. 1 for the period ended 30 June 2006	
Declaration date	24 August 2006
Last date to trade cum interest	8 September 2006
Linked units will trade ex interest	11 September 2006
Record date	15 September 2006
Payment date of interest distribution	18 September 2006
Distribution No. 2 for the six months ending 31 December 2006	
(Expected dates)	
Declaration date	22 February 2007
Last date to trade cum interest	9 March 2007
Linked units will trade ex interest	12 March 2007
Record date	16 March 2007
Payment date of interest distribution	19 March 2007

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

For completion by the aforesaid registered members of Hospitality who are unable to attend the 2006 annual general meeting of the company to be held at The Rosebank Hotel, corner Tyrwhitt and Sturdee Avenues, Rosebank, Johannesburg on Tuesday, 31 October 2006 at 10:00 ("the annual general meeting").

I/We (name/s in block letters) ____________________

of (address) ____________________

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

1. ____________________ or failing him/her

2. ____________________ or failing him/her

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

Ordinary business	For	Against	Abstain
1. Adoption of 2006 annual financial statements			
2. a. Re-election of Mr Y Aminzadeh			
b. Re-election of Mr K H Abdul-Karrim			
c. Re-election of Mr G A Nelson			
3. Approval of non-executive directors' fees for 2006			
4. Approval of non-executive directors' future fees			
5. Re-appointment of KPMG Inc. as auditors			
6.1 **Special resolution number 1:** repurchase of shares			
6.2 **Ordinary resolution number 1:** control of authorised but unissued shares			
6.3 **Ordinary resolution number 2:** issue of shares for cash			
6.4 **Ordinary resolution number 3:** authority for directors to sign documents			

Signed at ____________________ on ____________________ 2006

Signature(s) ____________________

Assisted by (where applicable) ____________________

Please read notes overleaf

NOTES TO THE FORM OF PROXY

1. Only shareholders who are registered in the register of the company under their own name may complete a form of proxy or attend the general meeting. This includes members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration. A proxy need not be a member of the company.
2. Dematerialised shareholders who have not elected "own name" registration in the register of the company through a Central Securities Depository Participant ("CSDP") and who wish to attend the annual general meeting, must instruct the CSDP or broker to provide them with the necessary authority to attend.
3. Dematerialised shareholders who have not elected "own name" registration in the register of the company through a CSDP and who are unable to attend, but wish to vote at the annual general meeting, must timeously provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between that shareholder and the CSDP or broker.
4. The completion and lodging of this form will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed, should such member wish to do so.
5. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
6. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the company or waived by the chairman of the annual general meeting.
7. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
8. A company or any other body corporate wishing to vote on a show of hands should ensure that the resolution required by section 188 of the Companies Act, 1973 as amended to authorise a representative to vote, is passed by its directors or governing body. Resolutions authorising representatives in terms of section 188 of the Act must be received by the company's transfer secretaries no later than 48 hours prior to the time fixed for this meeting.
9. Where there are joint members of shares any one of such persons may vote at any meeting in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present or represented at the meeting, that one of the said persons whose name appears first in the Register of members of such shares or his proxy, as the case may be shall alone be entitled to vote in respect thereof.
10. On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll a member who is present in person or represented by a proxy shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him bears to the aggregate amount of the nominal value of all the shares issued by the company.
11. The chairman of the meeting may reject or accept any proxy which is completed and/or received other than in accordance with the instructions, provided that he shall not accept a proxy unless he is satisfied as to the manner in which a shareholder wishes to vote.
12. This form of proxy must be lodged or posted or faxed to the transfer secretaries, Computershare Investor Services 2004 (Pty) Ltd, at 70 Marshall Street, Johannesburg or PO Box 61051, Marshalltown, 2107) or faxed to +27+11 688 5238 no later than 10:00 on Friday, 27 October 2006.

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

ADMINISTRATION AND CORPORATE INFORMATION

Secretaries and managers

Hospitality Property Fund Managers (Pty) Limited
1st Floor, Building 2
Freestone Park
135 Patricia Road
Sandown, Sandton
(PO Box 4795, Rivonia, 2128)
Tel: +27 11 775 6535
Fax: +27 11 775 6425

Registered office

1st Floor, Building 2
Freestone Park
135 Patricia Road
Sandown, Sandton
(PO Box 4795, Rivonia, 2128)

Bankers

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

Independent auditors

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

Sponsors

Nedbank Capital, a division of Nedbank Limited
135 Rivonia Road
Sandown
Sandton
(PO Box 1144, Johannesburg, 2000)

Transfer secretaries

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

BASTION GRAPHICS

Hospitality
PROPERTY FUND