Hospitality PROPERTY FUND

HOSPITALITY PROPERTY FUND ANNUAL REPORT 2010

ANNUAL REPORT 2010

Contents

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

The Fund was established with the aim of offering unitholders an investment vehicle with exposure to the hospitality sector through the ownership of hotel and leisure properties. The Fund consists of investments in 24 hotel and resort properties in South Africa, and is highly diversified in terms of geographic locations, star grading, fixed and variable income and market mix.

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

The Fund comprises a total of 63,1 million A-linked units and 63,1 million B-linked units, which are traded on the JSE as HPA and HPB codes respectively. The A-linked units have a preferential claim to earnings with capped growth. The B-linked units receive the balance of the earnings.

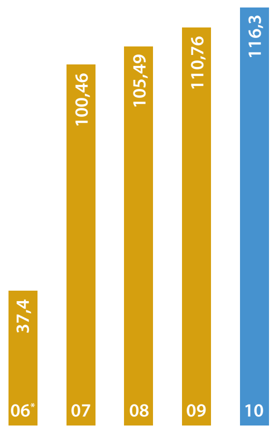
As at 30 June 2010 the properties were independently valued at R3,3 billion. The Fund has a BEE ownership component of some 22,03%

Five-year overview

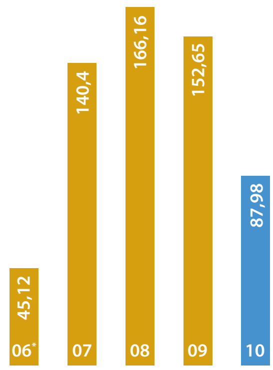
	2010 R'000	2009 R'000	2008 R'000	2007 R'000	2006* R'000
Distribution per A-linked unit (cents)	**116,30**	110,76	105,49	100,46	37,40
Growth in distribution – A-linked unit (%)	**5,0**	5,0	5,0	5,0	–
Weighted average number of A-linked units in issue during the year (million)	**62,47**	61,59	56,64	39,53	36,17
Distribution per B-linked unit (cents)	**87,98**	152,65	166,16	140,40	45,12
Growth in distribution – B-linked unit (%)	**(42,4)**	(8,1)	18,3	16,7	–
Weighted average number of B-linked units in issue during the year (million)	**62,47**	61,59	56,64	39,53	36,17
Distribution per combined unit (cents)	**204,28**	263,41	271,65	240,86	82,52
Growth in distribution – combined unit (%)	**(22,4)**	(3,0)	12,8	9,5	–
Weighted average number of combined units in issue during the year (million)	**124,94**	123,18	113,28	79,06	72,35
Property value (R million)	**3 318**	3 404	2 260	1 669	1 161
Interest-bearing liabilities (R million)	**1 308**	1 014	280	251	251
Gearing to property value (%)	**39,4**	29,8	12,4	15,0	21,6
NAV per unit (excluding deferred tax) (cents)					
A-linked	**1 535**	1 793	1 718	1 461	1 206
B-linked	**1 535**	1 793	1 718	1 461	1 206
Closing market price (cents)					
A-linked	**1 290**	1 101	1 065	1 421	1 100
B-linked	**1 090**	1 389	1 490	2 060	1 020
(Discount) or premium to NAV (%)					
A-linked	**(16,0)**	(38,6)	(38,0)	(2,7)	(8,8)
B-linked	**(29,0)**	(22,5)	(13,3)	41,0	(15,4)
Growth in unit price (%)					
A-linked	**17,2**	3,4	(25,1)	29,2	10,0
B-linked	**(21,5)**	(6,8)	(27,7)	102,0	2,0
Total return (%)					
A-linked	**27,7**	13,8	(17,6)	38,3	13,7
B-linked	**(15,2)**	3,5	(19,6)	115,7	6,5
PLS index at year end (J253)	**343**	289	243	336	240
Change on previous year (%)	**18,6**	19,1	(27,7)	40,2	17,3
Percentage of gross lettable income (%)					
C-Corp	**49,2**	44,0	41,0	34,0	29,0
Fixed	**44,3**	50,4	53,0	58,0	62,4
Variable	**5,5**	5,6	6,0	8,0	8,6
F&V	**1,0**	0,0	0,0	0,0	0,0
Number of properties	**24**	23	22	21	16

** 4 ½ months reporting period*

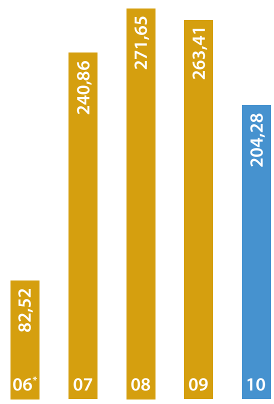
DISTRIBUTION PER A-LINKED UNIT (cents)



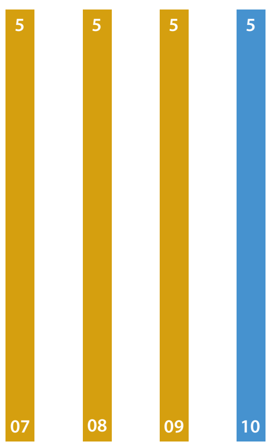
DISTRIBUTION PER B-LINKED UNIT (cents)



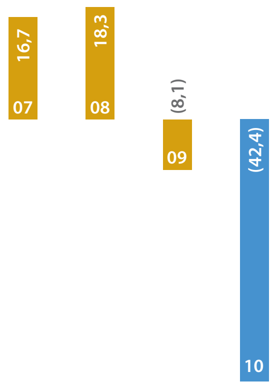
DISTRIBUTION PER COMBINED UNIT (cents)



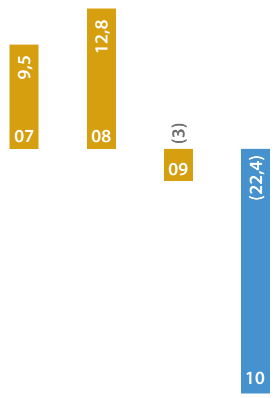
GROWTH IN DISTRIBUTION A-LINKED UNIT (%)



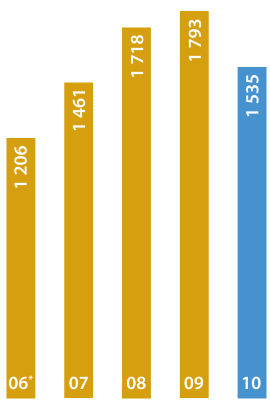
GROWTH IN DISTRIBUTION B-LINKED UNIT (%)



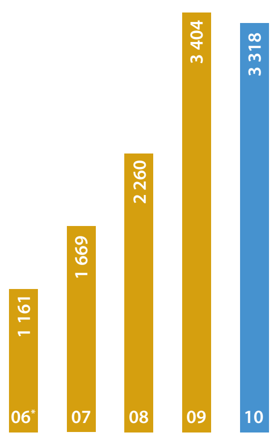
GROWTH IN DISTRIBUTION – COMBINED UNIT (%)



NAV PER UNIT
(excluding deferred tax) (cents)



PROPERTY VALUATION
(R million)



** 4 1/2 month reporting period.*

Executive overview

SALIENT FEATURES

- While South Africa hosted a most successful World Cup 2010 its impact on the hospitality industry was subdued in comparison to what was originally anticipated. This was primarily due to the continuing global economic recession, which notably affected long-haul destinations like South Africa, coupled to Rand strength that reduced the attraction of South Africa as a value-for-money option, resulting in substantially fewer foreign visitors for the event than initially expected.
- The slowdown in inbound travel coupled with restrained domestic demand affected hotel occupancies throughout the review period.
- Numerous hotel developments opened in primary nodes, in which a number of the Fund's properties are located. This added capacity to areas already oversupplied as a result of the corporate and leisure travel slowdown and protracted recovery from the economic recession. In a bid to gain market share, many of these new developments adopted opening pricing strategies that are unlikely to be sustainable but have nonetheless put pressure on both occupancies and rates.
- Post World Cup these trends have continued and are unlikely to improve until a sustained economic growth trajectory trend is firmly established, both domestically and globally.
- For the review period, the A-linked units' distribution grew by 5%, in line with the Fund's fixed distribution structure, while distributions for the B-linked unit declined by 42,4%. As some 21% of the Fund's earnings are derived from lease income linked to the operational performance of hotel properties, the lower B-linked unit distribution primarily reflected unfavourable trading conditions in the hotel and leisure industry for the period.

Against this background, while results for the year ending June 2010 were in line with both the hospitality industry and trends in the broader economy, they are nonetheless somewhat disappointing.

FUND OVERVIEW

As the only specialised listed property fund investing solely in the hospitality and leisure sectors, Hospitality offers investors exposure to the growth potential of both the hospitality and property industries. The Fund's diversified portfolio comprises investments in 24 hotel and resort properties throughout South Africa.

Linked units

Hospitality has an equal number of A- and B-linked units in issue: A-linked units have a preferential claim to distributions, while B-linked units receive the balance of the distribution. The linked units are listed on the JSE Limited ('JSE') under the Financials – Real Estate sector, with the codes HPA and HPB, respectively.

Management

The internalisation of Hospitality's management company ('Manco') obtained shareholder approval and was finalised in December 2009. The company has a dedicated executive management team with a wealth of experience in both the hospitality and property sectors.

Properties and leases

Hospitality's properties can be categorised into four lease type segments namely: fixed lease properties, C-Corp lease properties, variable lease properties and fixed and variable leased properties ('F&V leases').

Fixed lease properties:

The fixed lease properties include interests in four properties which account for 49% of total rental income for the year. These properties include the Birchwood Hotel & OR Tambo Conference Centre, Champagne Sports Resort, Kopanong Hotel and Conference Centre and Premiere Hotel King David. Rentals under fixed lease agreements are determined by commercial contractual lease terms with inflation-linked escalations. The lease on the Birchwood Hotel & OR Tambo Conference Centre also includes a turnover component.

C-Corp lease properties:

The company's 12 C-Corp lease properties contributed 44% of total rental income for the period. The C-Corp lease properties are Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Mount Grace Country House & Spa, Protea Hotel Victoria Junction, Protea Hotel Marine, Protea Hotel

The Richards, Protea Hotel – The Winkler, Protea Hotel Hazyview, Protea Hotel Richards Bay, Protea Hotel Hluhluwe & Safaris, Protea Hotel Imperial and The Bayshore Inn. C-Corp lease agreements comprise some 50% fixed lease rental, with the balance being variable rental equivalent to 90% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after paying the fixed portion of the lease.

Variable lease properties:

The variable lease category comprises interests in five Courtyard hotels situated in Arcadia, Cape Town, Eastgate, Rosebank and Sandton as well as the Radisson Blu Waterfront in Cape Town. Income derived from these properties is based directly on EBITDA. For the reporting period, these properties contributed 6% to total rental income.

F&V lease properties:

F&V leases are a fairly new addition to the Fund and are similar to C-Corp leases in that 50% of the rental is fixed with the balance being variable. The difference being that the lease is signed directly with the hotel operator as opposed to a third party, as in the case with the C-Corp leases. The Inn on the Square and Protea Edward are the two properties under this lease type.

REVIEW OF TRADING ENVIRONMENT

Economic overview

World focus was on South Africa this year with great anticipation of the 2010 World Cup being held in Africa for the first time. While having successfully hosted this prestigious event has helped to create international awareness not only of South Africa but of the continent at large, the expected economic benefits have been below expectations. Apart from the lasting benefit of improved infrastructure and magnificent stadia, the indirect future spin-offs of hosting this event are yet to be witnessed.

With global markets slowly making their way out of the economic recession South Africa appears to be following. After three consecutive quarters of contraction the economy showed signs of recovery with gross domestic product ('GDP') growing by an annualised 0,9% in the third quarter of 2009 and peaking at 4,6% in the first quarter of 2010. Thereafter, growth momentum in the economy has again slowed to 3,2% in the second quarter of 2010, contrary to expectations of higher growth on the back of the 2010 FIFA World Cup™.

The upswing in economic activity has largely been led by growth in the manufacturing sector specifically in the first quarter of 2010. However, a boost to the economy has also been witnessed in other sectors with positive growth of 3,3% to 5,8% in the first two quarters of 2010 in the trade sector, which includes retail and wholesale trade as well as hotels and restaurants. Growth in the latter is likely attributable to the hosting of the World Cup and its sustainability is still to be seen. Economic growth is expected to remain at the same levels as that witnessed in the second quarter of 2010, averaging 3,2% quarter-on-quarter in the third quarter of 2010.

The Consumer Price Index ('CPI') inflation rate has dropped significantly from 6,7% in July 2009 to 3,7% in July 2010, which is within government's inflation target band and the lowest since April 2006. This fall in consumer prices was despite the 25% increase in electricity prices. However, this trend could moderate with certain recent upward pressures including wage negotiations above the level of inflation, and increases in credit extension.

The strengthening of the Rand and a low inflation environment has allowed the South African Reserve Bank to cut interest rates by a further 100 basis points during the reporting period. On the back of continued moderation of CPI inflation and the country's lower-than-expected growth for the second quarter of 2010, the MPC reduced the repo rate by another 50 basis points in September 2010, thereby ending the third quarter of 2010 at 6% and with the prime lending rate at 9,5%.

The local currency has been buoyed by strong capital inflows as the MPC opted to keep interest rates steady since March 2010, thus maintaining South Africa's position as an attractive investment destination. South Africa's interest rates are still high relative to the Euro Zone and US and continued investor interest in emerging economies has had a positive influence on the currency.

Mount Grace Country House & Spa

The Rand is expected to remain strong against the backdrop of positive capital inflows and concerns around the possibility of a double-dip recession in both the US and Euro Zone.

The question remains whether South Africa will be able to build on the success of the World Cup and whether the global economy will demonstrate a sustained recovery trajectory.

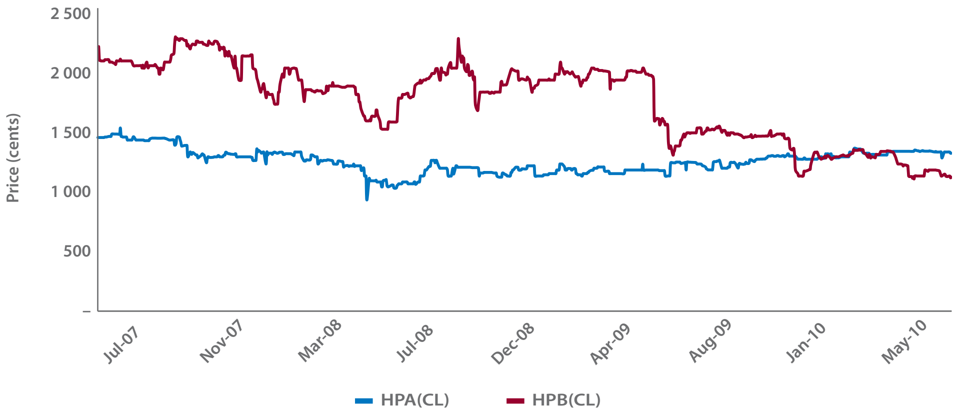
Hospitality sector overview

In line with forecasts, the general negative trend in international tourism which first emerged during 2009 continued into 2010.

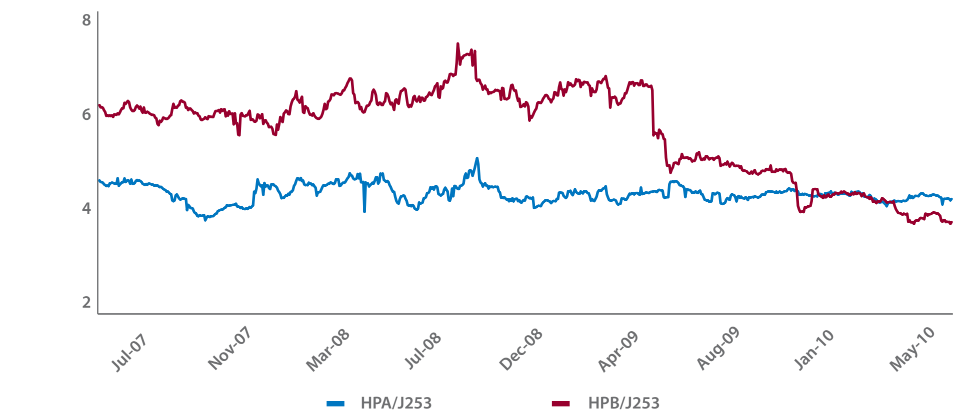
According to Statistics SA foreign tourist arrivals to South Africa grew an encouraging 16,3% year-on-year at the end of April 2010. This figure is well above the global tourism growth for the same period of 7%, comprising a 9% increase in emerging economies and 5% in advanced economies. Of the increased foreign tourist arrivals in South Africa, arrivals from mainland Africa grew 20,7% and visitors from other continents increased by 4,4%.

Hospitality had limited exposure to MATCH Accommodation contracts and concluded a sound commercial deal to accommodate main event sponsors for the 2010 event with Tourvest Holdings (Pty) Limited for the Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Mount Grace Country House & Spa, Protea Hotel – The Richards and Protea Hotel – The Winkler.

UNIT PRICE PERFORMANCE



LINKED UNIT PRICE RELATIVE TO LISTED PROPERTY INDEX (J253)



Anticipated travel growth prior to the World Cup event largely failed to materialise, with virtually no leisure or corporate travel over the period itself. While school holidays coincided nationally for the first time, this did not translate into a pick-up in domestic leisure business, primarily due to the perceived lack of inventory and higher hotel rates over this period. As a result the non-Tourvest contracted properties in the company's portfolio were unable to recover from the late release of MATCH Accommodation rooms inventory in May 2010.

According to the Smith Travel Research ('STR') global hotel benchmark report, average occupancies in South Africa for all hotels for the first six months of 2010 declined by 3,8% against the same period in 2009, but with average rates improving by 18,6% primarily as a result of the World Cup effects. Unfortunately the STR reporting format has been amended, which makes certain comparatives difficult and, disappointingly, some larger hotel groups have withdrawn their participation in this benchmarking due to concerns regarding the accuracy of the information. The 5-star market indicates the largest growth in revenue per available room ('RevPAR') due to higher rates achieved over the World Cup period, with year-on-year growth of 14,2%.

A number of new hotel developments were opened ahead of the anticipated World Cup upturn which largely failed to materialise in areas other than Gauteng. The largest variance against prior years was recorded in Durban (a traditional destination over the June school holidays) which was severely affected by the late release of MATCH inventories. Cape Town also showed only slight occupancy growth over the World Cup period on the prior year, with high occupancies achieved only over match days in that city. The sustainability of a number of the new products remains in question and rate discounting will not be sufficient to meet development expectations.

Listed property sector review

With the current stock market volatility, the defensive nature of listed property and the resilience of its returns have come to the fore. South African listed property has been the best performing asset class over the 12 months to June this year with total returns of around 29% compared to equities, bonds and cash at approximately 22%, 10% and 7% respectively. While there has been concern around rising vacancies and increased tenant arrears, this appears to have bottomed out and going forward, a gradual improvement in these fundamentals is expected in line with the anticipated recovery in the economy.

Listed property shares are a long-term investment and continue to offer an attractive initial income yield relative to cash and bonds underpinned by contractual lease rentals with generally fixed escalations, thereby ensuring growth in income generally in excess of inflation.

At year end the listed property sector was trading at a historic yield of 8,4% which, assuming consensus growth forecasts of approximately 6,7% per annum over the medium term, results in a forward yield of approximately 9,0%. This compares favourably to 12-month cash deposit rates of approximately 6,9% and long-term bond yields of around 8,9%.

RESULTS

Annual distributable earnings per linked unit declined by 22,4% from the year ended 30 June 2009. The A-linked units' distribution of 116,30 cents grew by 5% over the prior year, in line with the Fund's distribution structure, while distributions for the B-linked unit decreased 42,4% to 87,98 cents compared to the previous year.

Some 21% of the Fund's earnings are derived from lease income which is linked to the operational performance of the hotel properties. This decline in distribution of the B-linked unit was primarily as a result of the unfavourable trading conditions prevailing in the hotel and leisure industry for the period under review.

Distributions on the B-linked unit improved from 36,30 cents (interim) to 51,68 cents (final), mainly due to higher variable rentals generated over the World Cup in June 2010. The positive effect of the World Cup was, however, partly impaired by the company incurring bad debt write-offs during the period of R6,4 million linked to the Queensgate Group, a tenant at two of the Fund's properties. This impairment reduced the B-linked unit's distribution by 10,16 cents for the six months to June 2010.

Conference Centre Properties (Pty) Limited's lease over 46% of the units in the Waterclub body corporate scheme at the Radisson Blu Waterfront was cancelled in January 2010 after the tenant defaulted. Similarly, the l ease of Queensgate Greenmarket Square Investments (Pty) Limited at Park Inn Greenmarket Square, Cape Town, was cancelled in February 2010. The surety on these leases, Queensgate Holdings (Pty) Limited, was unable to settle the debts and was liquidated along with the two tenants during the reporting period. Replacement leases have been secured on both properties.

On the remaining properties exposed to variable rentals, hotel management continued to aggressively market these properties, utilising increased sales and marketing resources as well as focusing on maintaining efficiencies and reducing costs while endeavouring to maintain service standards.

PROPERTY PORTFOLIO

The Fund's property portfolio comprised interests in 24 hotel and resort properties throughout South Africa.

Property valuation and net asset value

As at 30 June 2010 Hospitality's property portfolio was independently valued at R3,3 billion, reflecting a decline of R253,6 million to book value. The drop in portfolio value was mainly due to projected lower rental incomes as a result of the trading downturn. Development and capital expenditure of R40,8 million and R15,3 million, respectively, was invested during the review period.

Acquisitions and disposals

The Protea Edward hotel was acquired by the Fund at a cost of R110,4 million. While transfer was effected on 2 August 2010, agreement was reached with the seller on an effective date of 1 June 2010. This hotel was leased to Protea Hotels on the F&V lease structure.

The Fund is further undertaking a review of its portfolio with a view to focusing on larger more robust assets and the possible disposal of smaller, less strategic assets.

Refurbishment, upgrades and expansions

A total of R40,8 million was invested in refurbishing certain properties to strategically position these for maximum long-term growth:

Protea Hotel Marine – R27,5 million refurbishment

This project is being undertaken in two phases with the first phase comprising the addition of 16 new standard bedrooms in underutilised conference space on the sixth floor. These were completed prior to the World Cup and the hotel successfully hosted a number of teams visiting Port Elizabeth over this period.

The second phase began in August and is scheduled for completion in December 2010. This includes refurbishing the remaining standard bedrooms, public areas and the reception area. Other issues being addressed in phase 2 include a new entrance from the parking area as well as refurbishment of the façade.

Protea Hotel Imperial – R14-million refurbishment

Completed in August 2010, all bedrooms and bathrooms were renovated. The plumbing infrastructure has been renewed and all fire safety aspects now comply with local fire regulations. Public areas, toilets and foyers have been refurbished, a back-up generator installed and the building exterior restored by specialists. Two extra conference facilities have enhanced the hotel's ability to host major conferences, entrenching it as the premier conference facility in Pietermaritzburg.

Champagne Sport Resort – R28 million expansion

A new conference centre has added capacity for 1 000 people, greatly enhancing this resort's ability to host exhibitions simultaneously with major conferences. This positions the resort alongside Birchwood and Sun City in terms of exhibition and conference capacity. The last phase, due for completion in December 2010, entails enlarging the restaurant and adding 40 standard bedrooms. The cost of this investment is rentalised in terms of the current lease agreement with the tenant.

Inn on the Square – R7,8 million

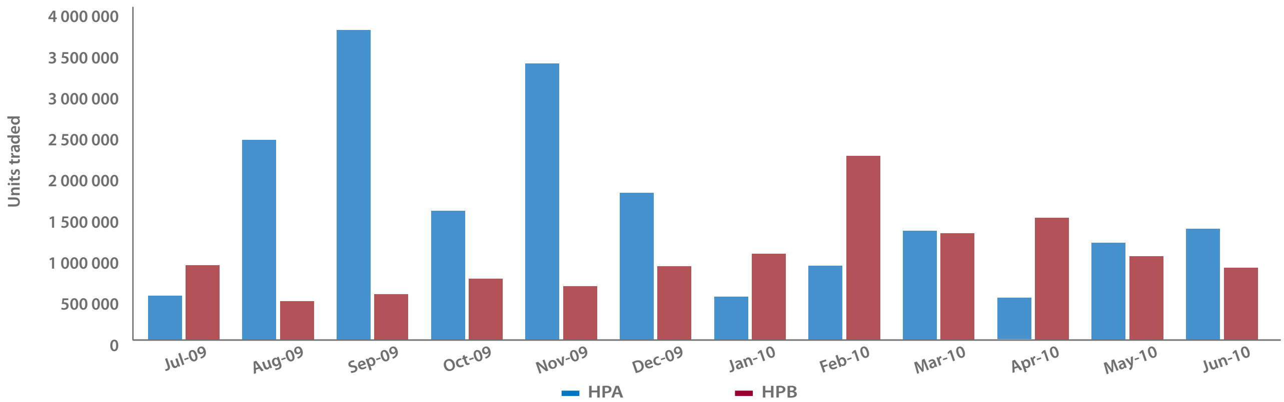
Following the departure of the Queensgate tenant in January 2010, certain upgrades were undertaken to meet required operating standards and to replace the Famous Butcher Grill restaurant, operated under licence from Queensgate. Dish restaurant was opened after extensive renovations to the bar and restaurant areas. The façade was upgraded in line with the Heritage Council of Cape Town's standards, and electrical compliance matters and airconditioning shortcomings addressed.

INVESTMENT STRATEGY

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

Hospitality has concluded agreements for the acquisition of The Westin Grand Cape Town ('Westin') (including the Paulaner Bräuhaus restaurant and micro-brewery situated on the V&A Waterfront, Cape Town) and the Arabella Western Cape Hotel and Spa ('AWCHS') (collectively, 'the Arabella hotels') from Arabella South Africa Holding (Proprietary) Limited and its subsidiaries. The purchase consideration will be an amount of R715,2 million and HPF in addition will assume approximately R26 million of working capital liabilities of the Arabella hotels.

VOLUME TRADED



Holiday Inn Sandton

HPF will fund up to R251,2 million of the purchase consideration through new debt facilities. The remaining balance of the purchase consideration, being R490 million, will be funded through a rights offer to Hospitality A- and B-linked unitholders.

Rationale for the transaction:
The Westin is a landmark five-star hotel in the CBD of Cape Town, ideally located adjacent to the Cape Town International Convention Centre and with a long-term lease and other contracts with Cape Town International Convention Centre Company (Pty) Limited.

AWCHS is a five-star luxury hotel and award-winning golf course, located near Hermanus in the Western Cape that has the potential to add to growth in distributions over time, including through the development of the approximately 437 hectares of undeveloped land which forms part of the transaction.

It is expected that the acquisition of the Arabella hotels will provide an additional underpin to the preferential distribution rights of Hospitality A-linked unitholders and contribute to growth in distributions for Hospitality B-linked unitholders.

BORROWINGS

The Fund's interest-bearing liabilities increased by R295 million to R1,308 million during the financial year. Of this, R82 million was utilised to fund the acquisition of the management company. A strategic initiative was implemented to reduce the Fund's debt burden and enhance unitholder returns going forward. The Fund's interest rate swaps which had been contracted over the past few years in a higher interest rate environment were becoming increasingly burdensome relative to the derivative swaps currently available in the market. In order to take advantage of the current favourable swap opportunities, the Fund elected to cancel its existing swaps through a refinancing arrangement to the value of R113 million and to enter into new swaps at substantially lower rates. This transaction was effected on 15 June 2010 and the benefits of a lower interest rate liability will flow through in the years ahead with a net interest saving of approximately R30 million over the next three years. The amount owing on the previous swaps has been capitalised to an interest-bearing loan account. The remaining increase in the debt facility was utilised to fund refurbishment and capital expenditure programmes.

The Fund's weighted average cost of debt for the year was 10,16% and the gearing ratio at 30 June 2010 was 39,4% of total asset value.

In compliance with International Financial Reporting Standards ('IFRS') interest swap agreements are valued on a mark-to-market basis. A fair value adjustment of R54 million has been charged to the income statement. This fair value adjustment has no effect on the distribution to linked unitholders but adversely affects both the earnings and headline earnings. The current swap profile is detailed below:

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

BLACK ECONOMIC EMPOWERMENT

Hospitality's black economic empowerment ('BEE') partners, being Nobuntu, Nobuntu II and the National Empowerment Fund ('NEF'), currently hold some 22,03% of the combined linked units in issue, both through BEE structures and direct shareholding. The Fund is currently in the process of obtaining a formal BEE rating.

LIQUIDITY

Of the company's units in issue, 25,1% were traded during the reporting period. A-linked units remained more liquid with 30,7% of units in issue being traded, while 19,4% of the B-linked units in issue were traded during the period.

MANAGEMENT COMPANY INTERNALISATION

The internalisation of the management company was effective from 1 December 2009. The minimum purchase price of R123 million was settled by way of R82 million in cash, funded from available debt facilities, and R41 million in Hospitality linked units. The balance of the purchase price will be calculated at the end of June 2012, dependent on certain performance criteria and subject to a maximum value of R180 million escalated by CPI annually. The transaction has resulted in an alignment of interests of key management with that of linked unitholders, the elimination of perceived conflicts of interest and an enhancement in the Fund's yield.

ISSUE OF LINKED UNITS

As part payment of the minimum purchase price for the management company, 1 521 014 A-linked units and 1 521 014 B-linked units were issued to the vendors, Grapnel Property Asset Managers (Pty) Limited and Hotel Tourism and Leisure Asset Management (Pty) Limited at R12,60 and R14,36 respectively.

PROSPECTS

The first 10 days of the new financial year continued to derive benefit from the FIFA World Cup 2010™ event as the majority of the Fund's room inventory was sold for this period. For the remainder of the financial year management expects trading conditions to remain challenging due to the increased room supply and cautious corporate, conference and leisure travel spend.

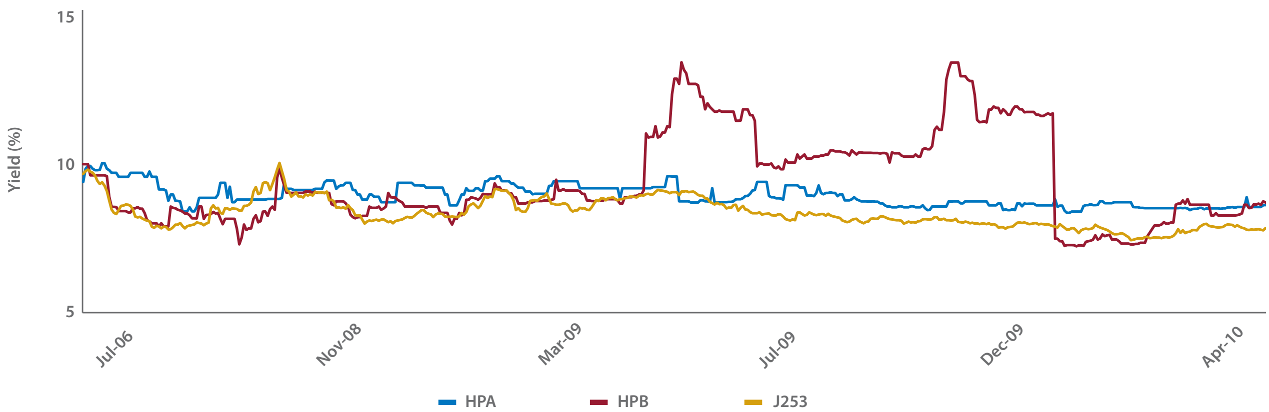
In addition to the Arabella portfolio the Fund is also considering other acquisitions that have come onto the market, some of which are unique and highly sought after properties.

The existing portfolio, the bulk of which is newly refurbished, together with the prospective new acquisitions and supported by more robust management and lease structures, should see the Fund well positioned to take maximum advantage of the expected recovery in the economy.

APPRECIATION

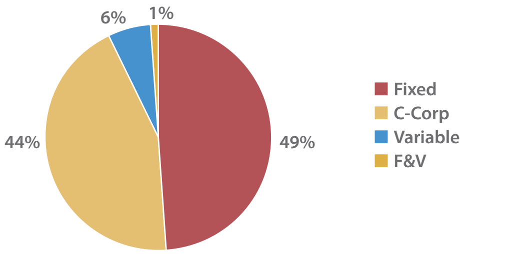
Management extends its sincere thanks to the board for its wisdom and direction over the past year. A special thanks goes to Mr Sewell, who served as the Chairman of Hospitality until recently. The board is most grateful to Mr Sewell for his valuable leadership and contribution during this period and wish him well in his future endeavours. Appreciation goes to all the employees of Hospitality Property Fund for their skill, dedication and ongoing contribution to the company. Thanks is also offered to our various tenants with whom we have established positive and beneficial ties, as well as the employees of Hospitality's hotel management companies involved in running day-to-day operations of our properties.

DIVIDEND YIELDS

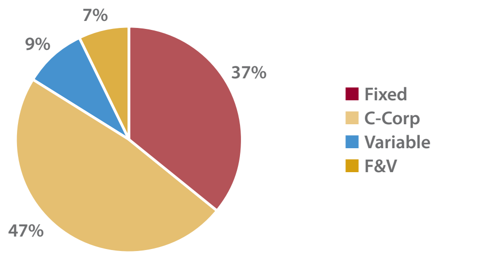


Salient features

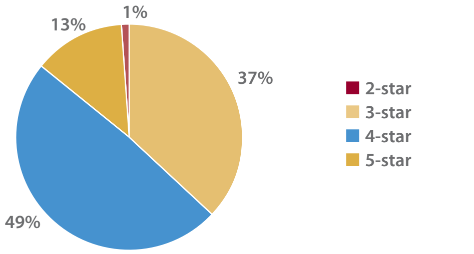
LEASE TYPE BY GROSS RENTAL INCOME



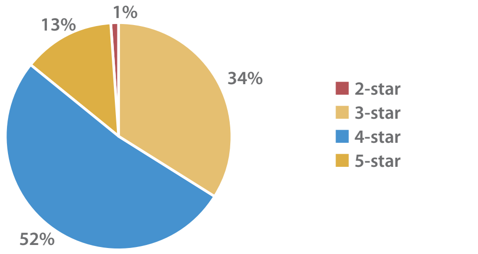
LEASE TYPE BY PROPERTY VALUE



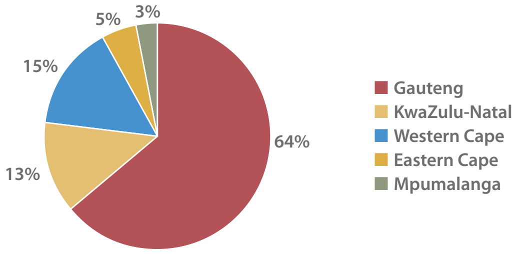
STAR GRADING BY GROSS RENTAL INCOME



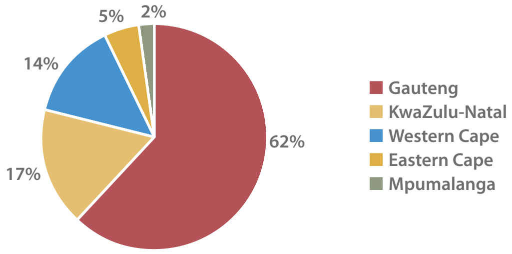
STAR GRADING BY PROPERTY VALUE



LOCALITY BY GROSS RENTAL INCOME



LOCALITY BY PROPERTY VALUE



Group structure

Hospitality PROPERTY FUND

100%

HPF Properties (Pty) Limited

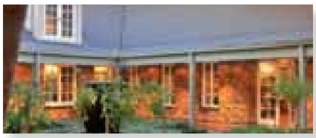
100%

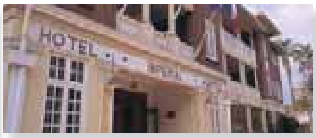
HPF Management (Pty) Limited
Internalised Manco

C-CORP LEASE AGREEMENTS

MANAGEMENT COMPANY
Extrabold Hotel Manco

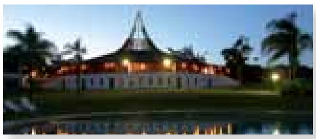
PROPERTY

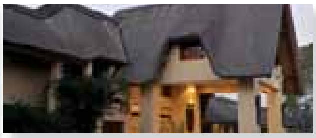

Mount Grace Country House & Spa


Protea Hotel Imperial


Crowne Plaza Johannesburg – The Rosebank

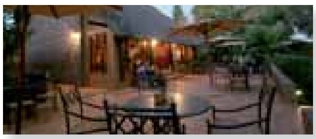

The Bayshore Inn


Protea Hotel – The Winkler


Protea Hotel Hluhluwe & Safaris


Protea Hotel – The Richards

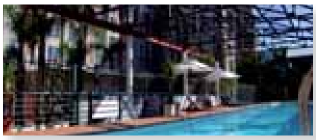
Holiday Inn Sandton – Rivonia Road

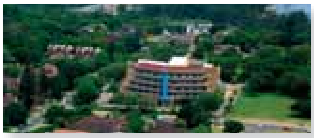

Protea Hotel Hazyview

MANAGEMENT COMPANY
Protea Hotels

PROPERTY

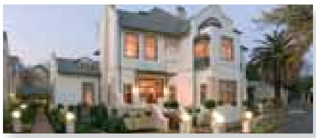

Protea Hotel Marine


Protea Hotel Victoria Junction

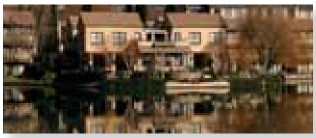

Protea Hotel Richards Bay

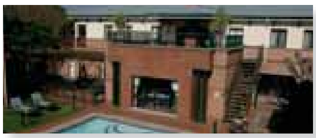
VARIABLE LEASE AGREEMENTS

PROPERTY

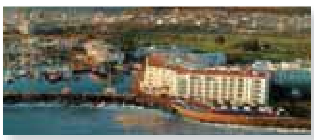

Courtyard Arcadia
(50% owned)


Courtyard Cape Town
(50% owned)


Courtyard Eastgate
(50% owned)

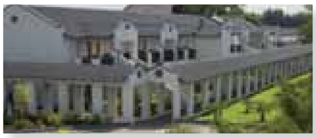

Courtyard Rosebank
(32,2% owned)

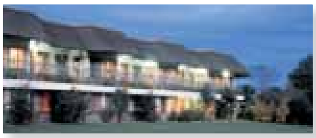

Courtyard Sandton
(25,8% owned)


Radisson Hotel Waterfront
(92 units owned and one wellness spa)

FIXED LEASE AGREEMENTS

PROPERTY


Birchwood Executive Hotel and Conference Centre

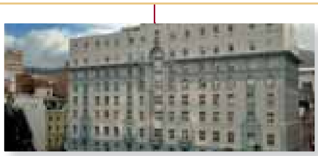

Champagne Sports Resort


Kopanong Hotel and Conference Centre


Premiere King David

F&V LEASE AGREEMENTS

PROPERTY


Inn on the Square


Protea Hotel Edward

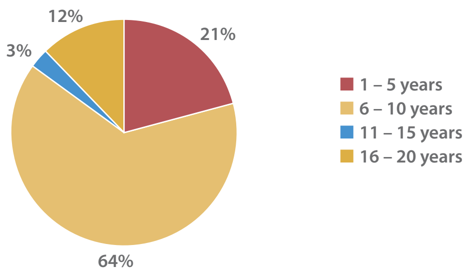
Property portfolio details investment properties summary – 30 June 2010

	Property location	Star grading	Number of rooms	Book value 30 June 2009 R	Capitalised cost for the year R
C-Corp lease					
Crowne Plaza Johannesburg – The Rosebank	Rosebank, Johannesburg, Gauteng	4	318	462 000 000	3 302 053
Holiday Inn Sandton – Rivonia Road	Sandton, Gauteng	4	301	462 000 000	3 074 199
Mount Grace Country House & Spa	Magaliesburg, Gauteng	5	121	273 000 000	2 349 617
Protea Hotel Victoria Junction*	Waterfront, Cape Town, Western Cape	4	172	189 000 000	1 857 184
Protea Hotel Marine	Port Elizabeth, Eastern Cape	4	98	103 000 000	8 604 808
Protea – The Richards	Richards Bay, KwaZulu-Natal	4	135	100 900 000	410 987
Protea Hotel Imperial	Pietermaritzburg, KwaZulu-Natal	3	70	64 000 000	17 230 752
Protea Hotel Hazyview	Hazyview, Mpumalanga	3	87	51 000 000	645 487
Protea Hotel – The Winkler	White River, Mpumalanga	3	87	46 000 000	573 789
Protea Hotel Richards Bay	Richards Bay, KwaZulu-Natal	3	66	42 000 000	(1 675 576)
Protea Hotel Hluhluwe & Safaris	Hluhluwe, KwaZulu-Natal	3	75	35 880 000	241 759
The Bayshore Inn	Richards Bay, KwaZulu-Natal	2	102	40 000 000	(641 266)
Total C-Corp lease				1 868 780 000	35 973 793
Fixed lease					
Birchwood Executive Hotel and Conference Centre	Boksburg, Gauteng	3	450	735 000 000	–
Champagne Sports Resort	Central Berg, KwaZulu-Natal	4	112	217 000 000	5 799 152
Kopanong Hotel and Conference Centre*	Benoni, Gauteng	4	228	119 000 000	1 664 842
Premiere King David	East London, Eastern Cape	3	80	50 000 000	43 457
Total fixed lease				1 121 000 000	7 507 451
Variable lease					
Radisson Blu Waterfront*	Waterfront, Cape Town, Western Cape	5	182	189 000 000	4 834 925
Courtyard Arcadia*	Arcadia, Pretoria, Gauteng	4	69	41 500 000	–
Courtyard Cape Town*	Mowbray, Cape Town, Western Cape	4	70	7 400 000	–
Courtyard Eastgate*	Bruma Lake, Johannesburg, Gauteng	4	69	26 000 000	–
Courtyard Rosebank*	Rosebank, Johannesburg, Gauteng	4	83	28 658 000	–
Courtyard Sandton*	Sandton, Gauteng	4	69	20 914 000	–
Total variable lease				313 472 000	4 834 925
F&V lease					
Inn on the Square	Cape Town CBD, Western Cape	3	165	101 000 000	7 800 000
Protea Edward	OR Tambo Parade Drive, Durban	4	101	–	110 533 066
				101 000 000	118 333 066
Grand total				3 404 252 000	166 649 235

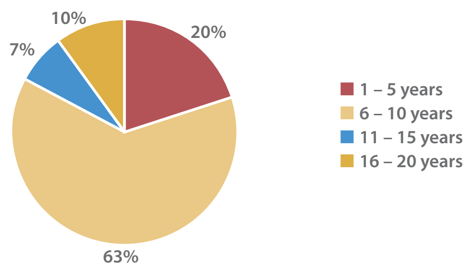
** For details on Hospitality Property Fund ownership refer to page 81.*

Revaluation surplus/ deficit R	Valuation 30 June 2010 R	Discount rate %	Terminal cap rate %	Date of acqui-sition	Acquisition cost R	Capitalised cost post-acquisition R	Total cost R	Surplus/ (deficit) on valuation to cost R	Growth on cost %
(65 008 053)	400 294 000	14,5	10,0	Feb-06	70 000 000	324 097 015	394 097 015	6 196 985	1,6
(64 844 199)	400 230 000	14,5	9,5	Sep-08	409 247 981	6 306 881	415 554 862	(15 324 862)	(3,7)
(36 349 617)	239 000 000	14,5	10,0	Feb-06	122 562 500	154 868 596	277 431 096	(38 431 096)	(13,9)
(26 857 184)	164 000 000	15,0	10,5	Feb-07	108 961 056	4 785 521	113 746 577	50 253 423	44,2
(12 604 808)	99 000 000	15,0	10,75	Feb-06	73 000 000	17 299 937	90 299 937	8 700 063	9,6
(50 410 987)	50 900 000	15,0	11,0	Feb-07	63 137 802	17 312 042	80 449 844	(29 549 844)	(36,7)
(31 230 752)	50 000 000	15,0	11,0	Mar-07	24 456 607	21 296 662	45 753 269	4 246 731	9,3
(10 645 487)	41 000 000	15,0	11,0	Apr-07	41 508 574	3 510 160	45 018 734	(4 018 734)	(8,9)
(8 573 789)	38 000 000	15,0	10,75	Feb-06	10 000 000	34 799 198	44 799 198	(6 799 198)	(15,2)
(10 324 424)	30 000 000	15,0	10,75	Feb-06	23 000 000	10 347 671	33 347 671	(3 347 671)	(10,0)
(788 759)	35 333 000	15,0	11,0	Jul-07	28 219 247	4 408 894	32 628 141	2 704 859	8,3
(6 358 734)	33 000 000	15,0	11,0	Feb-07	12 333 119	25 349 022	37 682 141	(4 682 141)	(12,4)
(323 996 793)	1 580 757 000				986 426 886	624 381 599	1 610 808 485	(30 051 485)	(1,9)
39 000 000	774 000 000	14,5	10,5	Feb-06	400 859 436	–	400 859 436	373 140 564	93,1
32 200 848	255 000 000	14,5	10,75	Feb-06	141 506 000	5 799 152	147 305 152	107 694 848	73,1
8 335 158	129 000 000	15,0	11,0	Feb-06	78 130 000	1 664 843	79 794 843	49 205 157	61,7
1 956 543	52 000 000	15,5	12,5	Feb-06	52 000 000	832 891	52 832 891	(832 891)	(1,6)
81 492 549	1 210 000 000				672 495 436	8 296 886	680 792 322	529 207 678	77,7
(16 834 925)	177 000 000	14,0	9,5	Feb-06	133 416 525	4 834 925	138 251 450	38 748 550	28,0
500 000	42 000 000	14,5	10,5	Feb-06	19 300 000	–	19 300 000	22 700 000	117,6
(300 000)	7 100 000	15,0		Feb-06	7 125 000	–	7 125 000	(25 000)	(0,4)
(500 000)	25 500 000	15,0	11,0	Feb-06	9 400 000	–	9 400 000	16 100 000	171,3
4 142 000	32 800 000	14,5	10,5	Feb-06	12 180 130	–	12 180 130	20 619 870	169,3
(14 000)	20 900 000	14,5	10,5	Feb-06	8 662 610	–	8 662 610	12 237 390	141,3
(13 006 925)	305 300 000				190 084 265	4 834 925	194 919 190	110 380 810	56,6
2 026 000	110 826 000	15,0	11,5	Feb-06	63 361 611	7 800 000	71 161 611	39 664 389	55,7
453 934	110 987 000	15,0	10,75	Jun-10	110 400 000	133 066	110 533 066	453 934	0,4
2 479 934	221 813 000				173 761 611	7 933 066	181 694 677	40 118 323	22,1
(253 031 235)	3 317 870 000				2 022 768 198	645 446 476	2 668 214 674	649 655 326	24,3

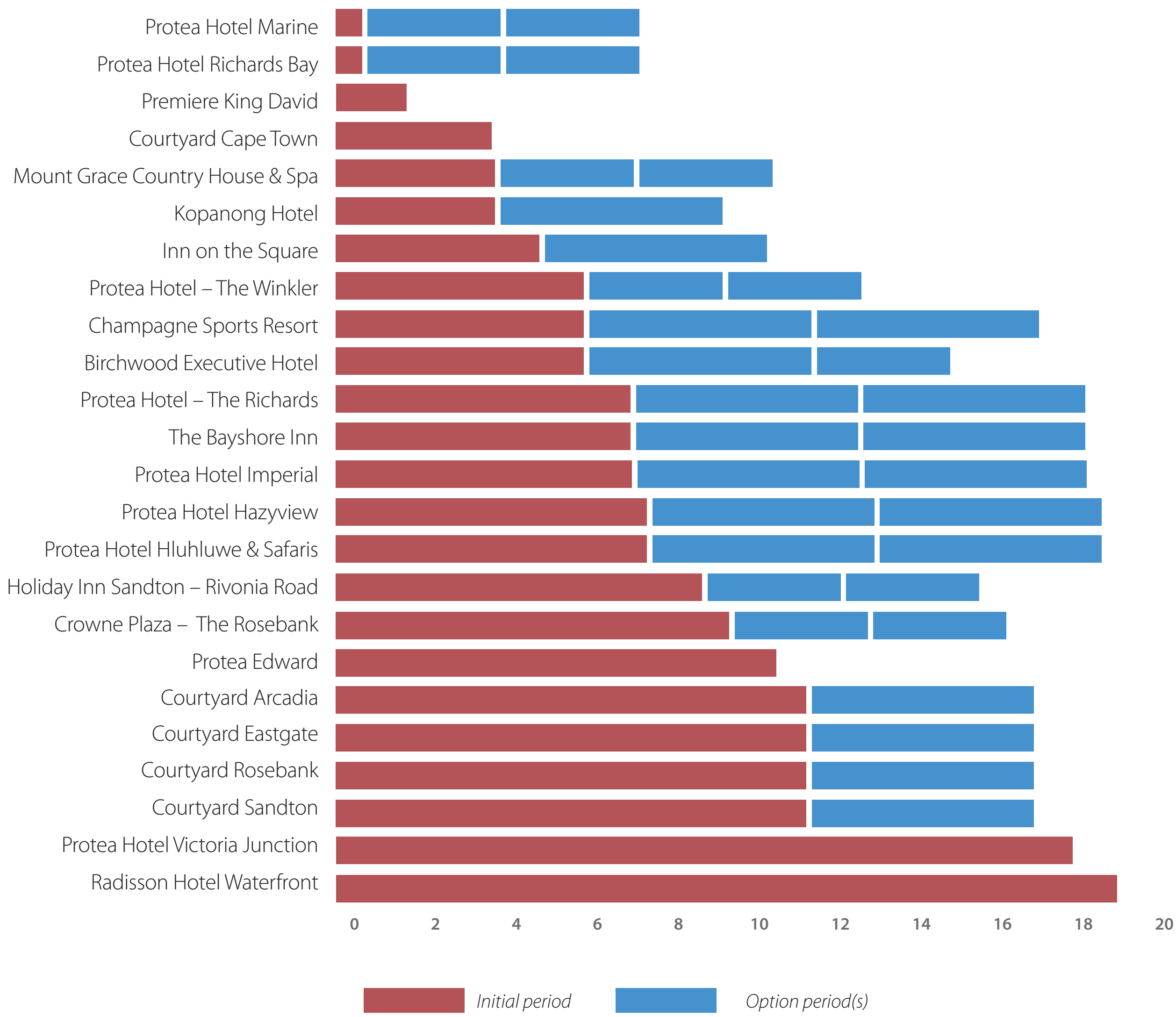
LEASE EXPIRY PERIOD BY GROSS RENTAL INCOME



LEASE EXPIRY PERIOD BY PROPERTY VALUE



LEASE EXPIRY PROFILE (YEARS)



Directorate

1. **Frank Berkeley – Chairman**
   Independent non-executive
   B Comm, B Acc, CA(SA)
   Frank is the chairman of Hospitality. He was appointed to the board on 11 March 2010 and was elected as chairman on 19 May 2010. Frank is currently the managing executive of Property Finance, Nedbank Corporate. He is also a director of Attfund Limited, Acucap Properties Limited and Sycom Property Fund Managers Limited, who are the managers of Sycom Property Fund.

2. **Gerald Nelson – Chief Executive Officer**
   BSc Building (WITS)
   Gerald is the chief executive officer of Hospitality and was appointed to the board prior to the listing of the Fund in 2006. Gerald is a prior managing director of Sycom Property Fund Managers Limited, the management company of Sycom. He is currently the managing director of Grapnel Property Group (Pty) Limited and was until recently a non-executive director of Sycom.

3. **Youseph Aminzadeh – Non-executive**
   BA (Webster), MBA (Trinity)
   Youseph is the prior deputy chief executive officer and currently a non-executive director of Hospitality and was appointed to the board prior to the listing of the Fund in 2006. Youseph was involved in the original conceptualisation and assembly of the Fund and was the managing director of Horwath Tourism & Leisure Consulting (Pty) Limited. He has written articles on various aspects of the tourism and hospitality sectors and has served on various industry committees and forums.

4. **Ridwaan Asmal – Executive, Financial Director**
   B Comm (Accounting) (WITS)
   Ridwaan is the financial director of Hospitality. He has over 17 years of experience in the listed property sector in South Africa and was employed by the property asset management company of Freestone Property Holdings Limited prior to joining Hospitality in 2006, where he was responsible for financial reporting, financial operations of the listed property fund and facilitation of acquisitions and disposals.

5. **Brenda Madumise – Independent non-executive**
   B.Proc (LLB) (WITS), MBA (Bond University), Graduate Diploma in International Trade Law (WITS)
   Brenda is the chairman of the BEE and remuneration committees and has been a director of Hospitality since 2006. She is an admitted advocate of the High Court of South Africa and serves on various boards, among others Randgold and Exploration Company Limited, Transaction Capital and the International Marketing Council of South Africa. She is also the chairman of the National Arts Council and Iziko Museums.

6. **Kamil Abdul-Karrim – Independent non-executive**
   BCompt, PDM-PPDA (WITS), MBA (Bond University)
   Kamil was appointed a director of Hospitality prior to the listing of the Fund in 2006. He is the chairman of the investment committee and also serves on the audit committee. Kamil is currently the managing director of Pam Golding Tourism and Hospitality Consulting (Pty) Limited.

7. **Willy Ross – Independent non-executive**
   CTA, CA(SA)
   Willy was appointed a director of Hospitality in April 2007. He is the chairman of Hospitality's audit committee and has over 31 years' experience in the merchant and investment banking industry and was, until his retirement, responsible for the Project and Structured Finance and Private Equity departments of Nedcor Investment Bank Limited as well as its Risk and Compliance functions. Post-retirement Willy has accepted directorships on a number of listed and unlisted companies including Kagiso Media Limited, Vunani Limited and Capital Property Fund (Chairman).

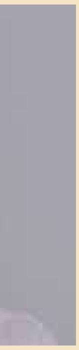
8. **Andrew Rogers – Deputy Chief Executive Officer**
   N-Dip – Hotel Management (Cape Town Technikon)
   Andrew has over 19 years of operational experience in the hospitality and tourism industries. Prior to joining Hospitality in January 2007 as chief operating officer, he was a director of operations with Southern Sun Hotels. During his career Andrew has been with the City Lodge Group, Cullinan Hotels and prior to joining Hospitality he held several positions at Southern Sun Hotels. Andrew was appointed deputy chief executive officer of Hospitality in February 2009.

9. **William Midgley – Non-executive**
   BA LLB (UCT) Admitted attorney, notary and conveyancer
   William was a director at Edward Nathan from 1991 to 2006, specialising in commercial property and SRP and JSE matters, where he was intimately involved with the listing of Hospitality in 2006. He joined Pangbourne Properties Limited as an executive director in 2006. He resigned at the end of 2007, following a reconstitution of the board. William joined Hospitality as a non-executive director in January 2008. He has practised as a director of Mkhabela Huntley Adekeye Inc, Attorneys, since April 2009.

10. **Zuko Kubukeli – Independent non-executive**
   PhD (Human Biology) (UCT), BSc (Medicine) (UCT), BSc (Biochemistry and Microbiology) (UCT)
   Zuko was a regional property manager of Atlas Property Services (Pty) Limited, the management company of Atlas Properties Limited, between 1999 and 2002 and was until 2004 an executive director of Brait Specialised Funds, the hedge fund division of the Brait Group. Zuko was appointed to the board of Hospitality in June 2008 and is currently also an executive director – strategy and acquisitions of Pan-African Capital Holdings (Pty) Limited and a principal of two private equity funds, Inspired Evolution Fund, the first cleantech fund in Africa and Pan-African Private Equity Fund One.


1.


7.



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Crowne Plaza Johannesburg – The Rosebank

INTRODUCTION

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

HEALTH AND SAFETY AUDITING

A formal health and safety programme has been implemented in all the Fund's hotels by the various hotel management companies and quarterly reporting in this regard is now mandatory. The programme includes the appointment and training of health and safety representatives. Records of these appointments, inspections and minutes of the monthly health and safety committee meetings are retained. Health and safety representatives now inspect workplaces monthly and include their findings in a formal report. Hotel management chair these safety committees and the various executives of the respective hotel management companies oversee these meetings each quarter.

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

ENVIRONMENTAL IMPACT

The Fund is striving to achieve compliance with the requirements of the ISO 140001 environmental standard. In acknowledging the importance of this benchmark in environmental management programmes, the Fund recognises the following key areas of operations as having an impact:

- Monitoring energy consumption (electrical use).
- Monitoring water consumption (irrigation, cleaning, laundry facilities and guest use).
- Monitoring and reducing waste water (sewage, laundry and kitchen).
- Monitoring emissions for air quality and pollution (kitchen emissions, laundry and non-smoking areas).
- Waste management and recycling (disposal of paper, glass and cans, both steel and aluminium).

ENERGY CONSUMPTION

At the Fund's hotels, electricity is only used that is provided by Eskom or the local municipalities. Energy-efficient generators have been installed at all the Fund's hotels to minimise disruption to the businesses by supplying essential services during power outages. The majority of energy consumption is attributable to the heating of boilers, air-conditioners, lifts and lighting purposes. Energy usage at the Fund's hotels is largely determined by occupancy levels and the Fund is actively seeking alternative methods of reducing its energy consumption. These measures include the introduction of an awareness campaign among guests and employee's. The Fund has determined that the measurement of energy consumption should be based on a "per room sold" basis to enable a meaningful comparative to be established between the hotels and the industry at large.

Electricity – 1 July 2009 to 30 June 2010

	Average kWh/ room night sold	Cost/room night sold
2 star	73	R31,99
3 star	70	R34,45
4 star	50	R29,53
5 star	122	R55,83

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

- Hot-water boilers are set to heat water at night and in off-peak periods. Having fully insulated systems ensures hot water is available at all times. Air-conditioning plants have timers to switch off automatically at preset times. This reduces energy consumption by ensuring unoccupied public spaces are not air-conditioned unnecessarily. Energy-saving devices, such as key-card activated switches, have been installed in new and refurbished properties. This allows shutdown of all non-essential electrical items when rooms are unoccupied. Boiler temperatures are set to minimum levels and where possible, heat pump systems, which are more energy efficient are being installed. Where central air conditioning chiller plants are installed, the utilisation of heat generated through the running of the plant in a heat exchange principle to heat/ maintain hot water, are being explored.
- Administration offices, boardrooms and conference centres are being retrofitted with motion sensors linked to lights and air-conditioning to further aid energy saving when areas are unoccupied.
- The use of energy-efficient globes.
- Regular maintenance of all electrical equipment to ensure that operating efficiencies are maintained.

- Staff training programmes and initiatives include measures on saving power such as switching off lights in storage areas and bedrooms.
- The installation of power factor correction equipment.

WATER CONSUMPTION

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

Water – 1 July 2009 to 30 June 2010

	Average kℓ/ room night sold	Cost/room night sold
2 star	1,28	R6,48
3 star	0,89	R7,62
4 star	0,92	R8,85
5 star	1,91	R17,02

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

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

- Guest-awareness programmes to reduce laundering of linen and towels.
- Toilets are being fitted with dual-flush mechanisms to reduce water consumption.
- Shower heads and taps are being fitted with aerators to simulate high flow rates, albeit at a significantly lower rate of usage.
- Showers are systematically replacing baths in new developments.
- The use of laundry equipment is carefully controlled by housekeepers to ensure optimal loads.
- Garden irrigation is timed to take place outside of the heat of the day to reduce evaporation.
- The use of "water wise" indigenous material in all landscaping and plant replacement projects.
- Programmes are in place for the continual removal of invasive alien plant species.

WASTE WATER

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

Other mitigating steps being implemented to reduce the effect of harmful substances on the environment include:

- Bio-degradable and environmentally friendly chemicals are used in all kitchen, cleaning and laundry operations.
- Guest supplies (soaps, shampoo, foam baths, conditioners and lotions) are bio-degradable.
- All hotels have grease traps that are regularly maintained to ensure kitchen and food greases are removed before entering waste systems.
- Salt chlorinators are used where possible to maintain pool hygiene and minimise the use of chlorine-based products.

AIR QUALITY AND POLLUTION

To minimise air pollution and improve air quality, the following initiatives are being implemented:

- Effective filtration of kitchen and laundry extraction with regular monitoring and maintenance of extraction and filtration systems.
- Reducing the number of cleaning materials dispensed by aerosol.
- The use of only CO_2-based fire extinguishers which are checked and tested for leakages every six months and hydrostatically tested every five years.
- Compliance with smoking legislation at all properties and ensuring public areas and the majority of hotel rooms are smoke-free.
- Use of ozone friendly refrigerants in all cooling equipment.
- Spillage-containment procedures are installed at chemical storage areas at each hotel and every diesel generator has containment areas for storing fuels. According to legislation, all spillages are recorded, the correct handling methodology clearly displayed in all storage areas and employees trained in the correct containment practices.
- Regular cleaning and replacement of air conditioner filters.

RECYCLING

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

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

Community and staff investment

Introduction

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

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

Hospitality Property Fund Bursary Scheme

Hospitality Property Fund in association with The University of Johannesburg School of Tourism and Hospitality ('UJ'), established the Hospitality Property Fund Bursary Scheme on 1 August 2009.

The bursary scheme provides previously disadvantaged South African students with the opportunity to complete a three year National Diploma in Hospitality Management with UJ. Students who benefit from the bursaries will have a service obligation to Hospitality of one year for each year of study. In acknowledging the skills shortage in the South African tourism industry, especially the shortage of leadership and managerial skills in the hotel sector, Hospitality will have the advantage of employing these well trained individuals at its hotels.

Third year bursary students commenced their practical training at Holiday Inn Sandton and Crowne Plaza Johannesburg – The Rosebank on 12 July 2010.

Enterprise developmental and corporate social investment

Growing the businesses of our existing business partners

Hospitality has continued to focus on strengthening existing relationships and assisting in developing those businesses which already provide a service to the Fund and whose development will not only benefit the business and surrounding communities, but also ultimately the Fund. Hospitality donated a vehicle and provided financing to Mr Peter Tshabedi, a local entrepreneur in the Magaliesburg region, who provides a contracted transport service to staff at the Mount Grace Country House & Spa ('Mount Grace').

This initiative has resulted in Mr Tshabedi being able to grow his business. He is now able not only to continue to provide transport services to the Mount Grace, but has also extended his services to the local residents of the nearby townships. Mr Tshabedi receives ongoing support from the management team at the hotel on the accounting, administering and general management of his business and staff.

Third year bursary students at Holiday Inn Sandton and Crowne Plaza Johannesburg – The Rosebank.

Boikarabelo

Bread Oven Project

The Bread Oven Project was initiated by Siyabonga Africa and entails the running of a mini-bakery by members of impoverished rural/informal settlements.

Staff are trained in the skills of bread making, safety and business management. Each completed bakery contains a gas oven and the necessary baking equipment to immediately commence trading.

Hospitality in conjunction with Tri-star has funded two bread ovens for the Boikarabelo community. Boikarabelo is situated in Magaliesburg and is run by Marion and Con Cloete. Boikarabelo is an extraordinary village and school that provides shelter, food, and education to more than 550 orphaned South African children. Marion and Con also raised The Social Action Campaign for Angels in the Dust – a documentary on the children of Boikarabelo, produced to raise awareness of the HIV/Aids crisis in South Africa.

Staff trainees

During the period of the World Cup, 17 of Boikarabelo's very motivated and dedicated hospitality students, who are in the process of completing their studies through Westcol College at Boikarabelo, were employed part-time at Mount Grace to assist in the Food and Beverage and Housekeeping departments. The project was a huge success and feedback received from guests has been positive.

Hospitality and Mount Grace will continue its association and support of the Magaliesburg and Boikarabelo community.

CSI contributions directly by hotels:

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

- Aurora Special Care for Handicapped Children
- Children of Dawn
- SA Red Cross Society
- Reach for a Dream
- Red Cross Children's Hospital
- SOS Childrens Village of South Africa.

Training and development

Training and development is conducted at all the hotels across the Hospitality property portfolio. The latest addition to the training platform has been the implementation of a Training and Quality Development Programme. The programme includes a skills programme aimed at services staff and a managerial development programme focused on junior management.

REGULATORY COMPLIANCE

The board of Hospitality is committed to promoting the spirit and complying with the principles of good corporate governance as outlined in the King II report on Corporate Governance for South Africa 2002 ('King II') and will continue the business of the Fund, through effective management and leadership, with transparency, integrity and fairness to the best interest of all its stakeholders. Hospitality has complied with King II for the period under review.

The King report on Governance for South Africa 2009 (King III), which was released in September 2009 for implementation in respect of financial year ends commencing on or after 1 March 2010, will be applicable to Hospitality for the year ending 30 June 2011.

Early implementation of King III has taken place in certain instances and a work plan for the full application of King III has been set in motion. Where appropriate for the company, the necessary amendments to its current governance policies and practices will be made and new ones will be implemented.

Indications are that the Companies Act, 2008 ('the new Companies Act') will become effective during the last quarter of 2010. Measures will be put in place to ensure compliance with the new Act.

THE BOARD

Composition, responsibility and rotation of directors

The composition of the board and its sub-committees are set-out on page 32 of this report. The qualifications and a brief curriculum vitae of each director can be found on pages 22 and 23. Hospitality's board is led by Mr Frank Berkeley, (an independent non-executive chairman) and comprises 10 members, of which seven are non-executive and three are executive. Five of the seven non-executive directors are independent. The independence of the company's directors' are assessed in accordance with the requirements of King II and the JSE Limited Listings Requirements ('the JSE requirements').

The board takes responsibility for the full and effective control of the company; it provides leadership and direction to the Fund and monitors management's implementation of agreed strategies and objectives.

A clear division of responsibilities exist at board level in order to ensure a balance of power and authority, such that no one individual has unfettered powers of decision making.

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

Roles of the chairman and chief executive officer

The roles of the chairman and the chief executive officer are separated. The chairman is responsible for the effective functioning of the board.

The chief executive officer is the principal representative of the company. He is responsible for the running of the company business and for leading the executive team. He ensures the implementation of strategies and objectives as agreed by the board.

Meetings and conduct

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

The board has a formal charter in place which sets out its objectives and commitments and which is reviewed annually.

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

Summary of attendance at board and sub-committee meetings

For the period 1 July 2009 to 30 June 2010	Board	Audit	BEE	Remuneration	Investment	C-Corp# restructure
Number of meetings	**4**	**7**	**4**	**2**	**6**	**1**
F M Berkeley* (Chair)	1	•1	–	–	–	•1
T E Sewell❖	4	5	–	–	•4	–
K H Abdul-Karrim	4	7	–	–	5	1
Y Aminzadeh	4	–	–	2	▫5	•1
R Asmal	4	•7	•4	•2	•4	•1
Z N Kubukeli	3	–	4	–	5	1
M B Madumise	4	–	3	2	–	–
W J Midgley	4	•1	–	–	–	1
G A Nelson	4	•7	4	•1	▫5	•1
A S Rogers	4	•3	–	•1	2	•1
W C Ross	4	7	–	2	6	1

 # A specialist committee established to investigate an alternative to or possible restructure of the existing C-Corp structure. See details on page 33.
** Appointed to the board on 11 March 2010.*
❖ Resigned from the board on 19 May 2010.
• By invitation.
▫ Resigned from the committee on 19 November. Attended three meetings by invitation.
– Not a member.

Appointment, period of office and terms of employment

Appointments are dealt with in a formal and transparent manner by the board as a whole.

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

The deputy chief executive officer and the financial director are both full-time salaried employees of HPF Management (Pty) Limited (formerly Vexicure (Pty) Limited), a wholly owned subsidiary of Hospitality. Their employment contracts are subject to three and two months' notice periods respectively.

Executive directors do not receive any directors' fees. Details of executive directors' remuneration packages as agreed to by the remuneration committee can be found on page 65 of this report.

The termination of an executive director's contract of employment will result in a concomitant termination of his board appointment.

Non-executive directors are not subject to fixed terms of employment and as such no service contracts have been entered into with Hospitality.

Non-executive directors are remunerated at a fee per annum, which fee is adjusted in accordance with their roles on and participation in the various sub-committees of the board. Non-executive directors' fees are presented to shareholders at the annual general meeting for approval.

THE BOARD AND ITS SUB-COMMITTEES

Structure and reporting

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

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

Each sub-committee reports back to the board at least quarterly. The minutes of a sub-committee meeting held during a quarter are noted at the quarterly board meeting following such sub-committee meeting. The chairman of the sub-committee reports back to the board on its activities. Recommendations are made to the board on those matters for which the sub-committee has been given responsibility.

The structure of the board and its sub-committees is as follows at 30 June 2010:

C-Corp restructure committee#
W C Ross (Chairman)
K H Abdul-Karrim
M B Madumise
W J Midgley

Remuneration committee
M B Madumise (Chairman)
W C Ross
Y Aminzadeh

Board of directors

Independent non-executive directors
F M Berkeley (Chairman)
K H Abdul-Karrim
Z N Kubukeli
M B Madumise
W C Ross

Non-independent non-executive director
W J Midgley
Y Aminzadeh

Executive directors
G A Nelson (Chief executive officer)
A S Rogers (Deputy chief executive officer)
R Asmal (Financial director)

Audit committee
W C Ross (Chairman)
K H Abdul-Karrim

BEE committee
M B Madumise (Chairman)
Z N Kubukeli
G A Nelson

Investment committee
K H Abdul-Karrim (Chairman)
Z N Kubukeli
A S Rogers
W C Ross

 # A specialist committee established to investigate an alternative to or possible restructure of the existing C-Corp structure. See details on page 33.

Audit and risk committee

The board has assigned the responsibility of risk management to the audit committee. The audit and risk committee meets at least quarterly. The committee met on seven occasions during the 2010 financial year.

In accordance with King II and the Companies Act, 1973 ('the Companies Act') the committee comprises two independent non-executive directors. Both members are financially literate and have the necessary levels of skills, competency and expertise to fulfil their duties as members of the committee. The chief executive officer, financial director, and the audit partner of KPMG Inc., (the external audit firm) attend meetings by invitation.

The board is aware of the requirements of King III and the new Companies Act for the audit and risk committee to comprise at least three independent non-executive directors. It is, however, not the intention of the board to exceed the limit of responsibilities of its independent non-executive directors by reason of their membership on the various sub-committees and in this regard, the board has considered the appointment of another independent non-executive director to the board to be appropriate and a suitable candidate with the necessary qualifications and experience is being sought to serve on the committee.

The committee has satisfied itself that it has fulfilled its responsibilities as set out in its written terms of reference, for the period under review.

These include:

- approval for recommendation to the board of the interim and final results announcements, the trading statement in respect of the six months ended 31 December 2009 and the annual financial statements of the group;
- based on the company's going concern assessment prepared by management and the assumptions made by management in their assessment, recommending to the board that the company will continue to be a going concern for the 2011 financial year;
- considering and confirming the appropriateness of the expertise and adequacy of resources of the finance team and making recommendations in this regard to the board;
- having considered and found appropriate the expertise and experience of the financial director;
- confirming the independence of KPMG Inc.;

- determining KPMG Inc.'s terms of appointment and their fees for the annual audit;
- confirming that KPMG Inc.'s appointment complies with the provisions of the Companies Act;
- setting the principles for using KPMG Inc. to perform non-audit services and approving any non-audit services performed by KPMG Inc.;
- the identification and analysis of risks;
- ensuring the ongoing audit and management of these risks;
- monitoring the ethical conduct of the company, its executives and senior officials.

The committee meets at least once a year with the audit partner and audit manager of KPMG Inc. without any executive management being present.

At year end, the board re-appointed the audit committee for the 2011 financial year.

BEE committee

The committee comprises two independent non-executive directors and one executive director. The committee met on four occasions during the 2010 financial year.

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

The committee is of the view that it has achieved its goals and carried out its responsibilities as set out in its written terms of reference, by:

(i) evaluating the training and development programmes implemented by the group and its property managers and ensuring that historically disadvantaged South Africans are targeted and receive the maximum benefits from these programmes;

(ii) ensuring that the majority of refurbishment and development costs are spent with BEE compliant suppliers;

(iii) approving any costs that are incurred as part of the group's BEE transformation process including sponsorships, CSI initiatives and learnerships.

Details of the group's CSI initiatives can be found on page 29 of the report.

Hospitality has contracted Transcend Corporate Advisors (Pty) Limited to advise on and assist with the rating preparation for the group, based on the results for the year ending 30 June 2010. Transcend will also assist with establishing a BEE strategy for the group for implementation during the 2011 financial year.

C-Corp restructure committee

On the inception of Hospitality, C-Corp was formed as part of a lease facilitation structure to convert operating revenue into rental revenue. The structure had been put in place in order for the Fund to meet certain accounting and JSE sector classification requirements.

The board appointed a specialist committee to investigate alternatives to or a possible restructuring of the existing C-Corp structure with a view to implementing a model which is more robust, equitable and financially sustainable while at the same time achieving a long-term balance of risk and reward between all parties. Java Capital ('Java') has been appointed as independent professional advisers in this regard and at least one representative of their corporate finance team attends all meetings of the committee. The committee met twice during the period under review.

The committee comprises four non-executive directors and is chaired by Mr Ross. The chairman of the board has a standing invitation to attend all meetings of the committee.

Investment committee

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

Messrs Aminzadeh and Nelson attend meetings by invitation. Mr Aminzadeh as a result of his knowledge of and experience in the hospitality industry is able to make valuable contributions to meetings of the committee.

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

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

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

Remuneration committee

The board has established a remuneration committee. The committee comprises three non-executive directors of which two are independent. The committee is chaired by Ms Madumise. The committee met twice in the period under review.

The committee ensures that the company remunerates directors and executives fairly and responsibly.

Executive directors' annual remuneration packages comprise:

- guaranteed base salary, calculated on a cost to company; and
- short-terms incentives, assessed on both company and individual performance, up to a maximum of two-thirds of the annual basic salary.

A long-term incentive scheme for executive directors and staff of Hospitality is being investigated.

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

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

The outcome of the introduction of the remuneration policy and whether certain set objectives have been met through its implementation, will be reviewed during the 2011 financial year.

CHANGES TO THE BOARD AND SUB-COMMITTEES

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

Board

(i) With effect from the internalisation of Hospitality Property Fund Managers (Pty) Limited ('the Manco') on 1 December 2009 the role of Mr Youseph Aminzadeh changed from executive director to non-executive director;

(ii) Mr F M Berkeley was appointed as an independent non-executive director to the board with effect from 11 March 2010; and

(iii) Mr T E Sewell resigned from the board on 19 May 2010, on which day Mr Berkeley was appointed in the role of chairman.

Investment committee

On 19 November 2009 Mr Rogers was appointed as a member of the investment committee and Messrs Aminzadeh and Nelson resigned as members of the committee.

Manco internalisation committee

The Manco internalisation committee, which was tasked together with independent advisor, Java Capital to make a recommendation to the board on the feasibility of the potential acquisition and internalisation of the Fund's management company, was dissolved following its positive recommendation to the board and the conclusion of the internalisation of the Manco.

EVALUATION

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

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

COMPANY SECRETARY

With effect from the internalisation of the Manco on 1 December 2009, Manco was replaced as company secretary by HPF Management (Pty) Limited (formerly Vexicure (Pty) Limited), which is represented by Mrs L R van Onselen.

The company secretary updates the board with changes to relevant legislative and regulatory developments and where necessary arranges training and involves the company's sponsors, auditors or organisations such as the Institute of Directors.

The company secretary provides a central source of guidance and advice to the board on matters of good governance and changes in legislation. She supports the chairman of the board and the chairman of each sub-committee and is responsible for the annual work plan of the board and committees.

The company secretary's responsibilities also include the administration of meetings; preparation of accurate minutes of meetings; ensuring compliance with the JSE requirements and statutory compliance.

DELEGATION OF AUTHORITY

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

CONFLICTS OF INTEREST

The board of Hospitality has adopted a formal policy in order to manage conflicts of interest. The policy is aimed at protecting both the Fund and the individuals involved from any appearance of impropriety and to ensure compliance with statutory and best practice requirements.

Directors are required to declare their general interests annually and to provide the company secretary with updates thereto as and when changes occur. In addition thereto, directors must declare any direct material interest of a financial, monetary or economic nature, or to which a monetary value may be attributed that they or a related person have in respect of a matter to be considered at a meeting of the board. Following disclosure of such interest and any material information relating to the matter, directors must recuse themselves from the meeting and do not partake in the consideration of the matter.

A director may not execute any document on behalf of the company in relation to any matter in which he or a related party has a material interest. A director is further precluded from managing or monitoring a contract in which they have an interest.

DEALING IN THE LINKED UNITS OF HOSPITALITY

Hospitality has established a share dealing policy in line with the JSE Limited Listings Requirements and the Security Services Act 36 of 2004, which prohibits any director or staff member of the company who may have access to confidential information from dealing directly or indirectly in the linked units of the company during restricted periods. This includes any price sensitive period as determined by the board, any period where the linked units are trading under cautionary and the periods between the ends of the interim and annual reporting periods and the announcement of the financial results for such respective periods.

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

INTERNAL CONTROLS AND RISK MANAGEMENT

Hospitality has dedicated executive management and analyst teams, which on a continual basis review policies, controls, processes and systems. The executive management teams acts independently from the hotel operators and reports directly to the chief executive officer and ultimately to the board. The executive team is represented by the chief executive officer and financial director at each audit committee meeting and has unrestricted access to the chairmen of the board and the audit committee. The policies and processes relating to financial risk management are set out on pages 70 to 75 of the annual report.

EXTERNAL AUDIT

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

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

BEE OWNERSHIP

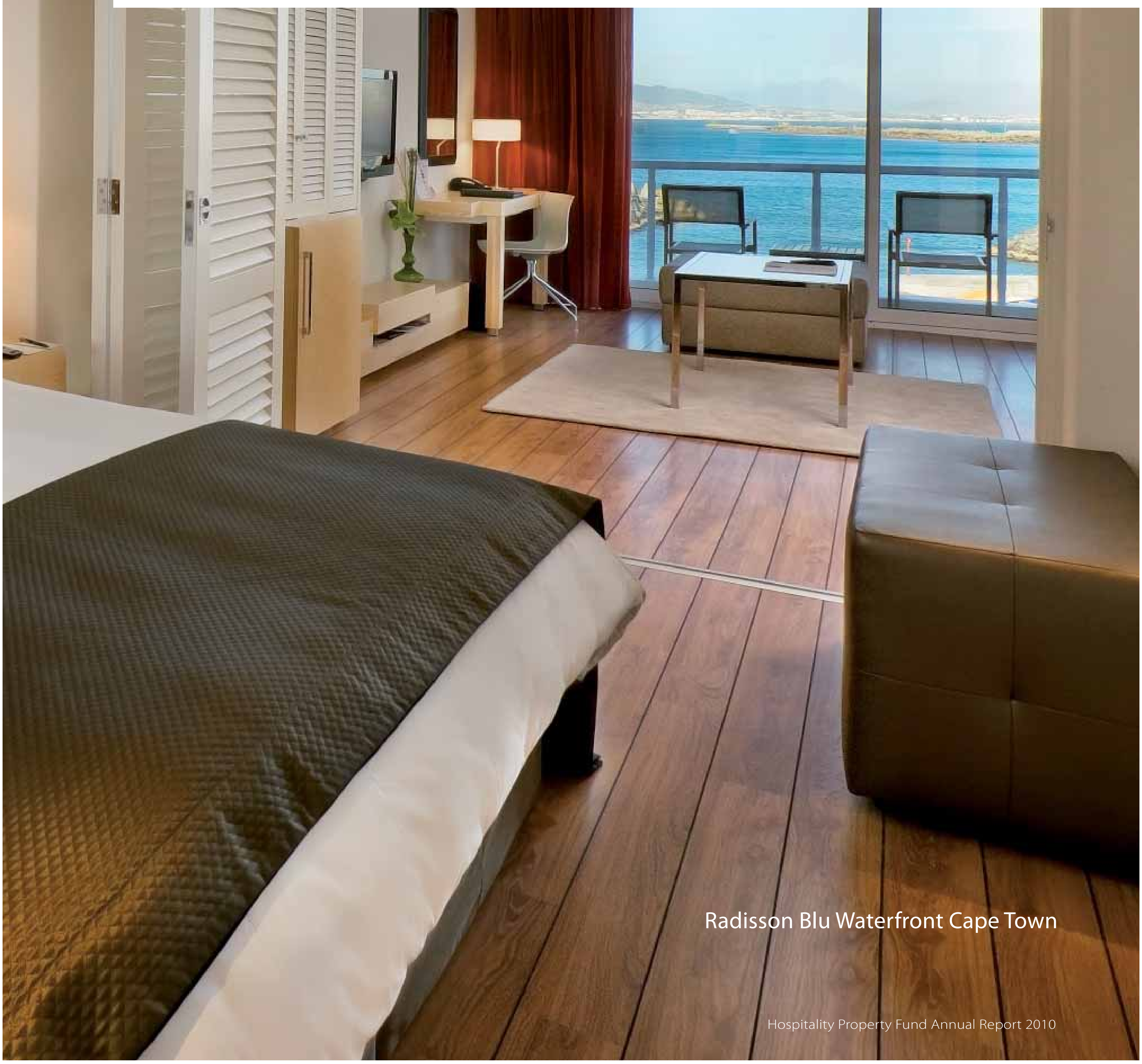
Hospitality currently has an overall BEE ownership of 22,03% of total units in issue through the holdings of Nobuntu Investments (Proprietary) Limited, Nobuntu Investments II (Proprietary) Limited and The National Empowerment Fund Corporation (Proprietary) Limited.

COMMUNICATION AND INVESTOR RELATIONS

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

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

The annual general meeting is an ideal opportunity for unitholders to engage with the directors and management team and unitholders are encouraged to attend this event. The notice of the meeting can be found on pages 85 to 88 of this report.



Radisson Blu Waterfront Cape Town

Directors' responsibility and approval

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Hospitality Property Fund Limited, comprising the statements of financial position at 30 June 2010, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards, the AC 500 series issued by the South African Institute of Chartered Accountants and in the manner required by the Companies Act of South Africa.

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

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

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

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

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and annual financial statements of Hospitality Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 18 August 2010 and signed on their behalf by

F M Berkeley

G A Nelson

Certificate by the company secretary

We hereby certify that for the year ended 30 June 2010, 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.

HPF Management (Pty) Limited
Secretaries

18 August 2010

REPORT IN TERMS OF SECTION 270A(1)(F) OF THE COMPANIES ACT, NO 61 OF 1973, AS AMENDED

Information on the membership and composition of the audit committee, its terms of reference and procedures are described more fully in the corporate governance report on page 32 of the annual report. The audit committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Fund's accounting, internal control and financial reporting practices.

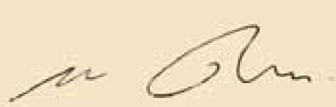
EXECUTION OF FUNCTIONS OF THE AUDIT COMMITTEE

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

- Considered the independence and objectivity of the external auditors and ensured that the scope of additional services provided did not impair their independence;
- Reviewed the external audit plan and approved the external auditors' fee proposal for the 2010 financial year;
- Approved the non-audit-related services performed by the external auditors in the year in accordance with the policy established and approved by the board;
- Considered accounting treatments, significant financial transactions, interest rate swap restructures and other financial information;
- In compliance with the JSE Listings Requirement 3.84(h), the committee reviewed the performance, appropriateness and expertise of the Financial Director, Mr R Asmal, and was satisfied with his experience and expertise to fulfil his role;
- Considered the appropriateness of the accounting policies.

After assessing the requirements set out in section 270A(5)(a-d) of the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors, and recommends the reappointment of the external auditors at the next annual general meeting.

The audit committee has evaluated the financial statements of the group for the year ended 30 June 2010 and, based on the information provided to the audit committee, considers that the group complies with the Companies Act, as amended, International Financial Reporting Standards (IFRS) and the Listing Requirements of the JSE.



W C Ross
Audit committee chairman

Report of the independent auditor

TO THE MEMBERS OF HOSPITALITY PROPERTY FUND LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group annual financial statements and the annual financial statements of Hospitality Property Fund Limited, which comprise the statements of financial position at 30 June 2010, and the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 43 to 79.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Hospitality Property Fund Limited at 30 June 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.
Registered Auditor

TMiddlemiss

Per T A Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director

18 August 2010

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

The directors have pleasure in submitting their report for the year ended 30 June 2010.

NATURE OF BUSINESS

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

The property portfolio consists of interests in 24 properties valued at R3,3 billion.

REVIEW OF OPERATIONS

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

Trading conditions across the hospitality industry remained tough throughout the year resulting in tenants either remaining under pressure to service fixed rentals or contributions to variable rentals declining. The A-linked units distribution for the year amounted to 116,30 cents, up 5% on the previous year and in line with the distribution structure. The B-linked unit distribution was 87,98 cents or 42,4% lower than the previous year.

The portfolio was revalued by independent property valuers at R3,3 billion and the net asset value per linked unit (excluding deferred taxation) was R15,35 at year end.

SHARE CAPITAL AND DEBENTURES

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

Further details of the share capital and debentures are set out in notes 9 and 11 of the annual financial statements.

DIRECTORATE

Details of the composition and changes to the board can be found on pages 32 and 34.

In terms of the company's articles of association Mr Y Aminzadeh and Mr W C Ross retire by rotation and offer themselves for re-election.

Directors' report

for the year ended 30 June 2010

DIRECTORS' INTERESTS

The directors' holdings of linked units at 30 June 2010 were:

A-linked units (number of units)

	2010				2009			
Director	**Direct beneficial**	**Indirect beneficial**	**Held by associates**	**Total**	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh	**–**	**–**	**–**	**–**	–	–	125 584	125 584
Z N Kubukeli	**–**	**207 764**	**–**	**207 764**	–	207 764	–	207 764
M B Madumise	**–**	**302 940**	**–**	**302 940**	–	302 940	–	302 940
W J Midgley	**–**	**20 000**	**6 962**	**26 962**	–	20 000	6 962	26 962
G A Nelson	**–**	**1 536 057**	**398 433**	**1 934 490**	–	1 536 057	271 673	1 807 730
T E Sewell*	**40 443**	**–**	**–**	**40 443**	40 443	–	–	40 443
	40 443	**2 066 761**	**405 395**	**2 512 599**	40 443	2 066 761	404 219	2 511 423

** Resigned on 19 May 2010.*

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

Grapnel Property Asset Managers (Pty) Limited, an associate of Mr Nelson sold 272 300 and 33 481 A-linked units on 1 July and 2 July 2010 respectively, reducing Mr Nelson's interests in A-linked units held by his associates to 270 005 and his total interests in the A-linked units to 1 806 062**.**

B-linked units (number of units)

	2010				2009			
Director	**Direct beneficial**	**Indirect beneficial**	**Held by associates**	**Total**	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh	**–**	**–**	**847 189**	**847 189**	–	–	160 897	160 897
R Asmal	**35 000**	**–**	**–**	**35 000**	10 133	–	–	10 133
F M Berkeley *	**50 000**	**–**	**–**	**50 000**	–	–	–	–
Z N Kubukeli	**–**	**207 764**	**–**	**207 764**	–	207 764	–	207 764
W J Midgley	**–**	**40 000**	**13 924**	**53 924**	–	40 000	13 924	53 924
G A Nelson	**–**	**1 006 857**	**799 432**	**1 806 289**	–	1 006 857	462 149	1 469 006
T E Sewell	**46 913**	**–**	**–**	**46 913**	46 913	–		46 913
	131 913	**1 254 621**	**1 660 545**	**3 047 079**	57 046	1 254 621	636 970	1 948 637

** Appointed on 11 March 2010.*
[#] Resigned on 19 May 2010.

There have been no changes in the above interests from the date of year end to the date of publication of this report.

DIRECTORS' REMUNERATION

Remuneration of directors is disclosed in note 15.1 to the annual financial statements.

DISTRIBUTION TO UNITHOLDERS

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

MANAGEMENT AND ADMINISTRATION

The group and company are managed by HPF Management (Pty) Limited (HPF Management), a wholly owned subsidiary of the Fund. The internalisation of the management was concluded on 1 December 2009 when Hospitality Property Fund Managers (Pty) Limited (HPF Manco) a company owned by Grapnel Property Asset Managers (Pty) Limited (Grapnel) (52%) and Hotel Tourism and Asset Management (HTLAM) (48%) was purchased by the Fund.

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

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

AUDIT COMMITTEE AND INDEPENDENCE OF AUDITOR

The audit committee consists only of independent directors and has reviewed these financial statements prior to their submission to the board for approval. The audit committee has also assessed the independence of the external auditor and is satisfied with their independence. Further detail regarding the scope and mandate of the audit committee is detailed on page 32 of the annual report.

SUBSIDIARY COMPANIES

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

GOING CONCERN

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

SUBSEQUENT EVENTS

At 18 August 2010 Hospitality was engaged in negotiations for the acquisitions of The Westin Grand Cape Town ('Westin') (including the Paulaner Bräuhaus restaurant and micro-brewery situated on the V&A Waterfront, Cape Town) and the Arabellla Western Cape Hotel and SPA ('AWCHS') (collectively, 'the Arabella hotels') from Arabella South Africa Holding (Pty) Limited and its subsidiaries. The purchase consideration will be an amount of R715,2 million and Hospitality Property Fund in addition will assume approximately R26 million of working capital liabilities of the Arabella hotels.

COMPANY SECRETARY

The company secretary is HPF Management (Pty) Limited. Hospitality Property Fund Managers (Pty) Limited was the previous secretary of the Fund.

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

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

Statements of financial position

as at 30 June 2010

	Notes	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
ASSETS					
Non-current assets		**3 471 279**	3 404 252	**1 516 018**	1 476 967
Investment properties	2	**3 303 013**	3 389 043	**–**	–
Straight-line rent income accrual	3	**14 857**	15 209	**–**	–
Investment properties and related accrual		**3 317 870**	3 404 252	**–**	–
Furniture and equipment	4	**587**	–	**–**	–
Goodwill	5	**152 822**	–	**–**	–
Investment in subsidiary	6			**1 516 018**	1 476 967
Current assets		**37 284**	12 619	**339**	591
Trade and other receivables	7	**26 574**	2 791	**223**	168
Cash and cash equivalents	8	**10 710**	9 828	**116**	423
Total assets		**3 508 563**	3 416 871	**1 516 357**	1 477 558
EQUITY AND LIABILITIES					
Equity		**580 276**	809 265	**259 195**	246 963
Share capital and share premium	9	**259 195**	246 963	**259 195**	246 963
Retained earnings		**(701)**	980	**–**	–
Fair value reserve	10	**321 782**	561 322	**–**	–
Non-current liabilities		**2 709 779**	2 483 644	**1 186 507**	1 157 912
Debentures	11	**1 186 507**	1 157 912	**1 186 507**	1 157 912
Interest-bearing liabilities	12	**1 308 371**	1 013 564	**–**	–
Derivative liability	27.1	**11 014**	70 456	**–**	–
Contingent consideration	28	**32 842**	–	**–**	–
Deferred taxation	13	**171 045**	241 712	**–**	–
Current liabilities		**218 508**	123 962	**70 655**	72 683
Trade and other payables	14	**38 356**	52 115	**903**	836
Vendors on property acquisition		**110 400**	–	**–**	–
Debenture interest payable		**69 752**	71 847	**69 752**	71 847
Total equity and liabilities		**3 508 563**	3 416 871	**1 516 357**	1 477 558
A. NET ASSET VALUE PER LINKED UNIT (RAND)					
A-linked unit		**14,00**	15,97	**11,45**	11,40
B-linked unit		**14,00**	15,97	**11,45**	11,40
B. NET ASSET VALUE PER LINKED UNIT (EXCLUDING DEFERRED TAXATION) (RAND)					
A-linked unit		**15,35**	17,93	**11,45**	11,40
B-linked unit		**15,35**	17,93	**11,45**	11,40

A. Net asset value per linked unit defined as: (Total assets – Total liabilities + Debentures)/(Linked units in issue at end of year)
B. Net asset value per linked unit defined as: (Total assets – Total liabilities + Debentures + Deferred taxation)/(Linked units in issue at end of year)

Statements of comprehensive income

for the year ended 30 June 2010

	Notes	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Revenue		**265 550**	261 919	**–**	–
Rental income – contractual		**265 902**	256 686	**–**	–
– straight-line accrual		**(352)**	5 233	**–**	–
Expenditure		**(29 577)**	(31 276)	**(4 285)**	(3 936)
Operating expenses		**(29 577)**	(31 276)	**(4 285)**	(3 936)
Operating profit/(loss)	15	**235 973**	230 643	**(4 285)**	(3 936)
Transaction costs on business combinations	28	**(2 268)**	–	**–**	–
Net finance (cost)/income		**(108 593)**	(63 172)	**132 017**	166 174
Finance income	16	**2 023**	24 139	**132 017**	166 174
Finance costs	16	**(110 616)**	(87 311)	**–**	–
Profit before debenture interest, goodwill, fair value adjustments and taxation		**125 112**	167 471	**127 732**	162 238
Recoupment of debenture interest	17	**1 194**	–	**1 194**	–
Debenture interest		**(128 926)**	(162 238)	**(128 926)**	(162 238)
(Loss)/profit before fair value adjustments, goodwill and taxation		**(2 620)**	5 233	**–**	–
Negative goodwill		**587**	–	**–**	–
Fair value adjustments		**(309 855)**	88 116	**–**	–
Investment properties, before straight-lining adjustment		**(253 618)**	204 619	**–**	–
Straight-line rental income accrual		**352**	(5 233)	**–**	–
Total fair value of investment properties		**(253 266)**	199 386	**–**	–
Contingent consideration		**(2 287)**	–	**–**	–
Interest-rate swaps		**(54 302)**	(111 270)	**–**	–
(Loss)/profit before taxation		**(311 888)**	93 349	**–**	–
Taxation	18	**70 667**	(54 889)	**–**	–
Total (loss)/profit and comprehensive (loss)/income for the year		**(241 221)**	38 460	**–**	–
Distribution per linked unit (cents)					
A-units		**116,30**	110,76	**116,30**	110,76
B-units		**87,98**	152,65	**87,98**	152,65
		204,28	263,41	**204,28**	263,41
(Loss)/earnings and diluted (loss)/earnings per share (cents)					
A-linked unit		**(193,06)**	31,22	**–**	–
B-linked unit		**(193,06)**	31,22	**–**	–
		(386,12)	62,44	**–**	–

Statement of changes in equity

for the year ended 30 June 2010

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
GROUP					
Balance at 30 June 2008	12	247 136	980	522 862	770 990
Profit/total comprehensive income for the year			38 460		38 460
Transactions with owners, recorded directly in equity	–	(185)	(38 460)	38 460	(185)
Share issue expenses, net of tax		(185)			(185)
Transfer to fair value reserve – revaluation of investment properties (net of deferred tax)			(149 730)	149 730	–
Transfer from fair value reserve – interest rate swaps			111 270	(111 270)	–
Balance at 30 June 2009	**12**	**246 951**	**980**	**561 322**	**809 265**
Loss/total comprehensive loss for the year			**(241 221)**		**(241 221)**
Transactions with owners, recorded directly in equity	**1**	**12 231**	**239 540**	**(239 540)**	**12 232**
Issue of shares	**1**	**12 411**			**12 412**
Share issue expenses, net of tax		**(180)**			**(180)**
Transfer from fair value reserve – investment properties (net of deferred tax)			**182 951**	**(182 951)**	**–**
Transfer to fair value reserve – contingent consideration			**2 287**	**(2 287)**	
Transfer to fair value reserve – interest rate swaps			**54 302**	**(54 302)**	**–**
Balance at 30 June 2010	**13**	**259 182**	**(701)**	**321 782**	**580 276**
COMPANY					
Balance at 30 June 2008	12	247 136	–	–	247 148
Transactions with owners, recorded directly in equity					
Share issue costs, net of tax		(185)	–	–	(185)
Balance at 30 June 2009	**12**	**246 951**	**–**	**–**	**246 963**
Transactions with owners, recorded directly in equity	**1**	**12 231**	**–**	**–**	**12 232**
Issue of shares	**1**	**12 411**			**12 412**
Share issue costs, net of tax		**(180)**	**–**	**–**	**(180)**
Balance at 30 June 2010	**13**	**259 182**	**–**	**–**	**259 195**

Statements of cash flows

for the year ended 30 June 2010

		GROUP		COMPANY	
	Notes	**2010 R'000**	2009 R'000	**2010 R'000**	2009 R'000
Cash flows from operating activities					
Cash generated from/(utilised in) operations	20	**196 678**	265 321	**(4 273)**	(3 710)
Finance income received	16	**2 023**	24 139	**132 017**	166 174
Finance costs paid	16	**(110 616)**	(87 311)	**–**	–
Distribution to unitholders	21	**(129 827)**	(175 627)	**(129 827)**	(175 627)
Net cash (outflow)/inflow from operating activities		**(41 742)**	26 522	**(2 083)**	(13 163)
Cash flows from investing activities					
Acquisition and development of investment properties	22	**(56 249)**	(939 953)	**–**	–
Acquisition of furniture and equipment	23	**(750)**	–	**–**	–
Acquisition of Manco	28	**(122 268)**	–	**–**	–
Restructure of interest rate swaps	27	**(113 743)**	–	**–**	–
Loan advanced to subsidiary		**–**	–	**(39 051)**	13 771
Net cash (outflow)/inflow from investing activities		**(293 010)**	(939 953)	**(39 051)**	13 771
Cash flows from financing activities					
Proceeds from the issue of linked units		**41 007**	–	**41 007**	–
Share issue expenses paid		**(180)**	(185)	**(180)**	(185)
Interest-bearing liabilities raised		**294 807**	733 838	**–**	–
Net cash inflow/(outflow) from financing activities		**335 634**	733 653	**40 827**	(185)
Net increase/(decrease) in cash and cash equivalents		**882**	(179 778)	**(307)**	423
Cash and cash equivalents at beginning of year		**9 828**	189 606	**423**	–
Cash and cash equivalents at end of year		**10 710**	9 828	**116**	423

1. ACCOUNTING POLICIES

Hospitality Property Fund Limited ('the company') is a company domiciled in South Africa. The consolidated annual financial statements of the company for the year ended 30 June 2010 comprise those of the company and its subsidiary (together referred to as the 'group' and individually as 'group entities'). The financial statements were authorised for issue by the directors on 18 August 2010.

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

1.1 Statement of compliance

The company annual financial statements and group annual financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), the AC 500 series issued by the South African Institute of Chartered Accountants and the requirements of the Companies Act of South Africa.

1.2 Basis of preparation

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

The accounting policies set out below have been applied consistently by all group entities and are consistent with prior years, except for the following changes in and additions to accounting policies:

Overview of changes

Starting as of 1 July 2009, the entity has changed its accounting policies and disclosures in the following areas:

- Accounting for business combinations – refer note 1.3.1
- Determination and presentation of operating segments – refer note 1.12

With the exception of business combinations, all changes in accounting policies and disclosures have been applied retrospectively.

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

1.3 Basis of consolidation

1.3.1 Business combinations

Accounting for business combinations after 1 July 2009.

The revised standards IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) became effective for all business combinations occurring in the financial year starting 1 July 2009. All business combinations occurring on or after that date are accounted for by applying the acquisition method. The change in accounting policy is applied prospectively. The only impact on earnings per share relates to transaction costs that were expensed – refer note 28.

The entity has applied the acquisition method for the business combinations disclosed in note 28.

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

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

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

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

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

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

1.3.2 Subsidiaries

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

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

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

1.4 Investment properties

Investment properties consist of properties acquired to earn rental income for the long term and subsequent capital appreciation. Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure. The nature of these properties are hotels and includes furniture, fixtures and equipment.

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

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

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

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

1. ACCOUNTING POLICIES continued

1.5 Financial instruments

A financial instrument is recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value, plus directly attributable transaction costs for financial instruments other than those classified as at fair value through profit or loss. Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, loan to subsidiary, other financial liabilities and derivative financial instruments.

Financial instruments include the following instruments per category:

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

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

Loans and receivables
- Cash and cash equivalents
- Trade and other receivables
- Loan to subsidiary

Other financial liabilities
- Trade and other payables
- Interest-bearing borrowings
- Debentures

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

1.5.1 Cash and cash equivalents

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

1.5.2 Trade and other receivables

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

1.5.3 Trade and other payables

Trade and other payables are measured at amortised cost.

1.5.4 Other financial liabilities

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

1.5.5 Derivative financial instruments

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

Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Any gains or losses on these financial instruments arising from changes in fair value do not affect distributable earnings. These gains or losses are transferred from retained earnings to a fair value reserve as they are not available for distribution.

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

1.5.6 Derecognition

The entity de-recognises a financial asset when:

(a) The contractual rights to the cash flows arising from the financial asset have expired in the entity; or

(b) It transfers the rights to receive the contractual cash flows on the financial asset including transferring substantially all the risks and rewards of ownership of the asset; or

(c) It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset. If the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

1.5.7 Offset

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

1.5.8 Impairment

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

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

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

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Impairment loss reversals are recognised in profit or loss.

1. ACCOUNTING POLICIES continued

1.6 Impairment of non-financial assets

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

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Impairment loss reversals are recognised in profit or loss.

1.7 Share capital and share premium

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

1.8 Provisions

Provisions are recognised when the entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.9 Revenue recognition

1.9.1 Rental income

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

1.9.2 Finance income

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

1.10 Expenses

1.10.1 Letting costs

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

1.10.2 Finance costs

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

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

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

1.11 Taxation

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

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

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

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

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

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

1.12 Segment reporting

Determination and presentation of operating segments

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

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment properties) and related revenue, loans, debentures, deferred tax, income tax assets or liabilities, borrowings and related expenses. Segment capital expenditure is the total cost incurred during the period to acquire, refurbish and upgrade investment properties.

1. ACCOUNTING POLICIES continued

1.13 Employee benefits: Defined contribution plans

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

1.14 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the entity's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the entity's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

1.15 Intangible assets

(i) Goodwill

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

Acquisitions of non-controlling interests

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

Subsequent measurement

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(vi) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

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

1.16 Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(iii) Subsequent costs

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

(iv) Depreciation

Depreciation is calculated on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

	2010	2009
Furniture and equipment	6 years	N/A
Computer hardware and software	3 years	N/A

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

1.17 Leases

The entity is party to numerous leasing contracts as the lessor of property. All leases are operating leases, which are those leases where the entity retains a significant portion of the risks and rewards of ownership. An adjustment is made to contractual rental income earned to bring to account in the current period the difference between the rental income that the entity is currently entitled to and the rental for the period calculated on a smoothed, straight-line basis over the period of the lease term. The entity is party to leasing contracts as the lessee of some property and equipment. Leases are classified as operating leases, where substantially all the risks and rewards associated with ownership of the asset are not transferred from the lessor to the lessee. Operating lease rentals with fixed escalation clauses are recognised in profit or loss on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease asset or operating lease liability.

1.18 Forthcoming requirements

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

1. ACCOUNTING POLICIES continued

1.18 Forthcoming requirements continued

IAS 24 – *Related Party Disclosures (Revised)*

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

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

The entity has yet to assess the effect of this particular standard and to determine whether or not the revised definition of a related party will result in any additional relationships being identified as related parties.

IFRS 9 – *Financial Instruments*

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

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

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

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

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

Annual improvements projects of the IASB

Each year the IASB makes amendments to certain standards and interpretations in issue. Some of the amendments made during the 2009 and 2010 annual improvements projects are not yet effective. Management have considered all the improvements and have concluded that they will have either no or minimal impact with the exception of the following:

IAS 17– *Leases (amendment)*

IAS 17 is amended by the deletion of the guidance stating that a lease of land with an indefinite economic life is normally classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. In terms of the amendment, a land lease with a lease term of several decades may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee. This amendment will be effective for the entity's financial reporting period ending 30 June 2011, but is in line with the entity's current accounting policy.

IAS 7 – *Statement of Cash Flows (amendment)*

The amendment is effective for the entity's financial reporting period ending 30 June 2011 and clarifies that only expenditures that result in the recognition of an asset can be classified as a cash flow from investing activities. This will only impact the classification of cash flows.

IFRS 7 – *Financial Instruments: Disclosures (amendments)*

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

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
2. INVESTMENT PROPERTIES				
Balance at beginning of year	**3 389 043**	2 249 704	**–**	–
Additions – acquisitions	**110 987**	420 754	**–**	–
Additions at cost – capitalised expenditure	**56 249**	519 199	**–**	–
Fair value adjustment	**(253 618)**	204 619	**–**	–
Property at fair value	**3 302 661**	3 394 276	**–**	–
Adjust: Straight-line rental income accrual	**352**	(5 233)	**–**	–
Balance at end of year	**3 303 013**	3 389 043	**–**	–

The investment property portfolio serves as collateral against loans from funding banks. Refer to note 12.

Investment properties were independently valued at 30 June 2010. The valuation of the portfolio was split between the following registered valuers from JHI (Gensec Property Services Limited):

Mr B van Vuuren, Professional Associate Valuer

Mrs L van der Merwe, Professional Associate Valuer

The valuations were undertaken using the discounted cash flow method ('DCF'). The fair values are based on the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's-length transaction after properly marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

A summary of the valuations and the relevant assumptions is reflected on page 19.

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

Details of construction and redevelopments are contained on page 10.

Property that is being constructed for future use as investment property is accounted for at fair value.

	GROUP		COMPANY	
3. STRAIGHT-LINE RENT INCOME ACCRUAL				
Balance at beginning of year	**15 209**	9 976	**–**	–
Straight-line rental accrued during year	**(352)**	5 233	**–**	–
Balance at end of year	**14 857**	15 209	**–**	–

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
4. FURNITURE AND EQUIPMENT				
Cost				
Balance at beginning of year	**–**	–	**–**	–
Acquisition during year	**18**			
Acquired in a business combination	**732**	–		–
Balance at end of year	**750**	–	**–**	–
Depreciation and impairment losses				
Balance at beginning of year	**–**	–	**–**	–
Depreciation for the year	**163**	–		–
Balance at end of year	**163**	–	**–**	–
Carrying amount				
Balance at beginning of year	**–**	–	**–**	–
Balance at end of year	**587**	–	**–**	–
5. GOODWILL				
Cost	**122 268**	–	**–**	–
Acquisition of Hospitality Property Fund Managers	**122 268**	–	**–**	–
Impairment losses	**–**	–	**–**	–
Contingent consideration	**30 554**			
Carrying value at year end	**152 822**	–	**–**	–

Impairment testing for cash-generating unit containing goodwill

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

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

(i) the management contract will continue on the same terms that were in place previously namely;

- an annual management fee of 1% of enterprise value (being a combination of interest-bearing debt and market capitalisation)
- 2% acquisition and development fee;

(ii) Remuneration in respect of all staff employed by the asset management company remain relatively unchanged;

(iii) Rental cost of premises and all overheads remain relatively unchanged;

(iv) Taxation assumed at 28%;

(v) The value in use was calculated based on an amount equivalent to the average of the 30 June 2009, 2010, 2011 and 2012 values of Manco. The values of Manco for each of the years was calculated by taking the net profit after tax cash flows from Manco's operation for each of the years escalated by the CPI for a six-year forecast period and discounting the forecast cash flows by the average yield of Hospitality over the previous 12 months.

Further detail on the Manco internalisation transaction can be found in note 28.

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
6. INVESTMENT IN SUBSIDIARY				
Shares at cost (R120)			**–**	–
Loan to subsidiary			**1 516 018**	1 476 967
			1 516 018	1 476 967
The subsidiary's principal activity is investment in properties in the hotel and leisure sector. The subsidiary has an issued share capital of R120 and is wholly owned by the company. The loan to HPF Properties (Pty) Limited is unsecured, has no fixed terms of repayment and bears interest at a rate not less than 99,99% of the net profit of HPF Properties (Pty) Limited as defined in the debenture trust deed. Interest is payable six monthly.				
An amount of R132 million (2009: R166 million) has been paid as interest to the holding company during this year.				
7. TRADE AND OTHER RECEIVABLES				
Trade receivables	**26 406**	2 620	**69**	–
Prepayments	**168**	171	**154**	168
Trade and other receivables	**26 574**	2 791	**223**	168
Financial assets	**26 406**	2 620	**69**	–
Non-financial assets	**168**	171	**154**	168
8. CASH AND CASH EQUIVALENTS				
Comprises bank balances of current and call accounts	**10 710**	9 828	**116**	423
Incorporated in the above is an amount of R7,2 million that is held in a fixed deposit bank account. This amount comprises deposits held on behalf of tenants as security for their rental obligations. The Fund also has an unutilised facility of R59,6 million with Absa at year end.				
9. SHARE CAPITAL AND SHARE PREMIUM				
Share capital				
Authorised				
A shares – 200 000 000 ordinary shares of R0,0001 each	**20**	20	**20**	20
B shares – 200 000 000 ordinary shares of R0,0001 each	**20**	20	**20**	20
Issued				
A shares – 63 112 101 (2009: 61 591 087) ordinary shares of R0,0001 each	**6,3**	6,2	**6,3**	6,2
B shares – 63 112 101 (2009: 61 591 087) ordinary shares of R0,0001 each	**6,3**	6,2	**6,3**	6,2
	12,6	12,4	**12,6**	12,4

Each share is linked to a debenture, which together form a linked unit.

10% of the unissued shares are under the control of the directors of the company subject to the provisions of the Companies Act, as amended and the requirements of the JSE Limited.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
9. SHARE CAPITAL AND SHARE PREMIUM continued				
Share premium				
Balance at beginning of year	**246 951**	247 136	**246 951**	247 136
Premium on share issue	**12 411**	–	**12 411**	–
Share issue expenses	**(180)**	(185)	**(180)**	(185)
Balance at end of year	**259 182**	246 951	**259 182**	246 951
Share capital and share premium	**259 195**	246 963	**259 195**	246 963
10. FAIR VALUE RESERVE				
Revaluation of investment properties (net of deferred tax)	**448 826**	631 777	**–**	–
Revaluation of interest rate swap	**(124 757)**	(70 455)	**–**	–
Revaluation of contingent consideration	**(2 287)**	–	**–**	–
	321 782	561 322	**–**	–
11. DEBENTURES				
Issued	**1 186 507,0**	1 157 912,0	**1 186 507,0**	1 157 912,0
A shares – 63 112 101 (2009: 61 591 087) debentures at R9,40 each	**593 253,5**	578 956,0	**593 253,5**	578 956,0
B shares – 63 112 101 (2009: 61 591 087) debentures at R9,40 each	**593 253,5**	578 956,0	**593 253,5**	578 956,0

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

The debentures are redeemable at their nominal value at the instance of the debenture holders any time after 25 years after the date of allotment. The right of redemption may be exercised only by special resolution of the debenture holders. Upon passing of the special resolution the debentures shall be redeemed by the company at their nominal value on the fifth anniversary of the date on which the special resolution was passed. The debenture trust deed is available for inspection by linked unitholders or their duly authorised agents at the registered office of the company.

The rights of debenture holders to repayment are subordinated to the claims of the unsubordinated creditors.

Subject to the subordination provisions, the debentures will be repayable if a final order of a competent court is made or an effective resolution is passed for the winding up of the company.

	Interest rate	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
12. INTEREST-BEARING LIABILITIES					
Absa Bank Limited – Main loan 1	JIBAR+1,3%	**822 000**	250 548		
Absa Bank Limited – Main loan 2	Prime -2%	**70 016**			
Absa Bank Limited – Floating	Prime -2%	**52 613**	44 016		
Absa Bank Limited – Loan 1	JIBAR+1,3%		249 000		
Absa Bank Limited – Loan 2	JIBAR+1,3%		170 000		
Absa Bank Limited – Loan 3	JIBAR+1,3%		150 000		
Absa Bank Limited – Loan 4	JIBAR+1,45%	**50 000**	50 000		
Absa Bank Limited – Loan 5	Prime -1,6%	**50 000**	50 000		
Absa Bank Limited – Loan 6	JIBAR+1,85%	**50 000**	50 000		
Absa Bank Limited – Loan 7	JIBAR+2,07%	**50 000**			
Absa Bank Limited – Loan 8	JIBAR+2,1%	**50 000**			
Absa Bank Limited – Loan 9	JIBAR+2,8%	**113 742**			
		1 308 371	1 013 564	**–**	–

The above loans are repayable on 10 February 2012 and are secured in terms of a first mortgage bond over investment properties with a market value of R3,3 billion and a cession of leases and rentals in respect of bonded properties.

In terms of its articles of association the borrowing powers of the company, excluding the debentures, are limited to 65% of the valuation of the group's property portfolio.

The proceeds from the increased borrowings over the year was utilised to fund the Manco internalisation, debt swap restructures, refurbishments and capital expenditure.

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
13. DEFERRED TAXATION				
Change in fair value of buildings' component of investment properties	**167 163**	237 649	**–**	–
Change in fair value of land component of investment properties	**3 882**	4 063	**–**	–
	171 045	241 712	**–**	–
Deferred taxation on the fair value adjustment of investment properties has been calculated at 14% on land value and 28% on buildings.				
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.				
14. TRADE AND OTHER PAYABLES				
Trade payables	**22 195**	40 529	**903**	836
Tenant deposits	**13 759**	9 435	**–**	–
VAT payable	**2 402**	2 151	**–**	–
	38 356	52 115	**903**	836
Financial liabilities	**35 954**	49 964	**903**	836
Non-financial liabilities	**2 402**	2 151	**–**	–
15. OPERATING PROFIT/(LOSS)				
Operating profit/(loss) is stated after charging the following:				
Auditors' remuneration				
– Audit fee	**608**	588	**85**	77
Bad debts	**6 413**	–	**–**	–
Directors' emoluments (refer note 15.1)	**1 141**	885	**1 141**	885
Defined contribution plan expense	**123**	–	**–**	–
Depreciation on furniture and equipment	**163**	–	**–**	–
Employee benefits expense	**4 046**	–	**–**	–
Contingent rental income	**56 873**	65 247	**–**	–
Management fees payable to Hospitality Property Fund Managers (Pty) Limited	**11 651**	26 986	**1 559**	1 563

Property and other expenses were incurred to generate rental income.

15. OPERATING PROFIT/(LOSS) continued

15.1 Directors' emoluments

Fees for services as directors and members of sub-committees

Group and Company – 30 June 2010

	Directors' fees R'000	Consulting fees R'000	Total R'000
Non-executive			
F Berkeley (Chairman)	40		40
T E Sewell (Resigned 19 May 2010)	264		264
K H Abdul-Karrim	211		211
Z N Kubukeli	176		176
M B Madumise	149		149
W Midgley#	188	954	1 142
W C Ross	318		318
	1 346	954	2 300

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

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

	Directors' fees R'000	Salaries R'000	Bonuses R'000	Total R'000
R Asmal	–	1 095	174	1 269
G A Nelson	–	1 909	194	2 103
A S Rogers	–	1 633	270	1 903
	–	4 637	638	5 275

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

Group and Company – 30 June 2009

	Directors' fees R'000	Consulting fees R'000	Total R'000
Non-executive			
T E Sewell (Chairman)	178	–	178
K H Abdul-Karrim	156	–	156
Z N Kubukeli	136	–	136
M B Madumise	134	–	134
W Midgley	119	438	557
W C Ross	162	–	162
	885	438	1 323

15. OPERATING PROFIT/(LOSS) continued

15.1 Directors' emoluments continued

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

	Directors' fees R'000	Salaries R'000	Bonuses R'000	Total R'000
Y Aminzadeh	–	570	–	570
R Asmal	–	978	558	1 536
G A Nelson	–	1 080	–	1 080
A S Rogers	–	1 512	907	2 419
	–	4 140	1 465	5 605

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

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
16. NET FINANCE COST/INCOME				
Finance income				
Interest accrued	**2 023**	24 139	**10**	–
Subsidiary company	**–**	–	**132 007**	166 174
	2 023	24 139	**132 017**	166 174
Finance costs				
Interest-bearing liabilities	**(110 616)**	(87 311)	**–**	–
17. RECOUPMENT OF DEBENTURE INTEREST				
Recoupment of debenture interest – manco internalisation	**1 194**	–	**1 194**	–
As distributions are paid on a six-monthly basis, all distributions in respect of units issued which relate to a period prior to the unit issue date would be refunded to the company.				
18. TAXATION				
Deferred taxation expense	**(70 667)**	54 889	**–**	–
No provision has been made for current taxation as the group has no taxable income for the year.				
Reconciliation of taxation rate				
Current taxation rate	**28,0%**	28,0%	**–**	–
Interest rate swap	**5,3%**	26,9%	**–**	–
Effective taxation rate	**22,7%**	54,9%	**–**	–

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

	GROUP		GROUP	
	2010 Gross R'000	**2010 Net of tax R'000**	2009 Gross R'000	2009 Net of tax R'000
19. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT				
(Loss)/profit for the year	**(241 221)**	**(241 221)**	38 460	38 460
Adjustments: Debenture interest	**127 732**	**127 732**	162 238	162 238
Earnings (linked units)	**(113 489)**	**(113 489)**	200 698	200 698
Adjustments:				
Fair value – investment properties revaluation	**253 618**	**182 951**	(204 619)	(149 730)
Fair value – straight-line rental income	**(352)**	**(352)**	5 233	5 233
Headline earnings (linked units)	**139 777**	**69 110**	1 312	56 201
Fair value – interest rate swaps	**54 302**	**54 302**	111 270	111 270
Transaction costs on business combinations	**2 268**	**2 268**		
Negative goodwill	**(587)**	**(587)**		
Contingent consideration	**2 287**	**2 287**		
Straight-line rental income	**352**	**352**	(5 233)	(5 233)
Distributable earnings	**198 399**	**127 732**	107 349	162 238

	2010			2009		
	A units	**B units**	**Total**	A units	B units	Total
Number of units	**63 112 101**	**63 112 101**		61 591 087	61 591 087	
Weighted average number of units	**62 474 525**	**62 474 525**		61 591 087	61 591 087	
Group						
Distribution per linked unit (cents)	**116,30**	**87,98**	**204,28**	110,76	152,65	263,41
(Loss)/earnings per linked unit (cents)	**(90,83)**	**(90,83)**	**(181,66)**	162,93	162,93	325,86
Headline earnings per linked unit (cents)	**55,30**	**55,30**	**110,62**	45,62	45,62	91,24
(Loss)/earnings per share (cents)	**(193,06)**	**(193,06)**	**(386,12)**	31,22	31,22	62,44

NOTES TO THE STATEMENTS OF CASH FLOWS

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
20. CASH GENERATED FROM/UTILISED IN OPERATIONS				
(Loss)/profit before taxation	**(311 888)**	93 349	**–**	–
Adjusted for:				
Net finance costs	**108 593**	63 172	**(132 017)**	(166 174)
Net debenture interest	**127 732**	162 238	**127 732**	162 238
Depreciation	**163**	–	**–**	–
Straight-lining accrual of rental income	**352**	(5 233)	**–**	–
Negative goodwill	**(587)**	–	**–**	–
Fair-value adjustments	**309 855**	(88 116)	**–**	–
Cash generated before working capital changes	**234 220**	225 410	**(4 285)**	(3 936)
Changes in working capital	**(37 542)**	39 911	**12**	226
(Increase)/decrease in trade and other receivables	**(23 783)**	14 731	**(55)**	(88)
(Decrease)/increase in trade and other payables	**(13 759)**	25 180	**67**	314
	196 678	265 321	**(4 273)**	(3 710)

		GROUP		COMPANY	
		2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
21.	**DISTRIBUTION TO UNITHOLDERS**				
	Balance at beginning of year	**71 847**	85 236	**71 847**	85 236
	Amount per statement of comprehensive income	**127 732**	162 238	**127 732**	162 238
	Balance at end of year	**(69 752)**	(71 847)	**(69 752)**	(71 847)
		129 827	175 627	**129 827**	175 627
22.	**ACQUISITION AND DEVELOPMENT OF INVESTMENT PROPERTIES**				
	Balance at beginning of year	**3 404 252**	2 259 680	**–**	–
	Fair value adjustments	**(253 618)**	204 619	**–**	–
	Acquisition of investment property at fair value	**110 987**	–	**–**	–
	Balance at end of year	**(3 317 870)**	(3 404 252)		
		(56 249)	(939 953)	**–**	–
23.	**ACQUISITION OF FURNITURE AND EQUIPMENT**				
	Balance at beginning of year	**–**	–	**–**	–
	Depreciation	**(163)**	–	**–**	–
	Balance at end of year	**(587)**	–		
		(750)	**–**	**–**	–
24.	**CAPITAL COMMITMENTS**				
	Authorised and committed	**41 900**	17 904	**–**	–
	The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.				
25.	**MINIMUM LEASE RENTALS RECEIVABLE**				
	At 30 June the group had contracts with tenants for the following minimum lease rentals for periods between three to 11 years. The rentals below relate only to fixed rentals and do not include any variable rentals or escalations based on CPI.				
	Less than one year	**202 054**	209 415	**–**	–
	Between one and five years	**734 303**	728 856	**–**	–
	After five years	**277 415**	383 173	**–**	–
		1 213 772	1 321 444	**–**	–

	GROUP		COMPANY	
	2010 **R'000**	2009 R'000	**2010** **R'000**	2009 R'000
26. RELATED-PARTY TRANSACTIONS				
The following transactions were carried out with related parties during the year:				
Hospitality Property Fund Managers (Pty) Limited (Manco) – Fund and asset manager *				
(transactions between 1 July to 30 November 2009 prior to Manco internalisation)				
Shareholders: Grapnel Property Asset Managers (Pty) Limited (Grapnel) (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (48%)				
Brokerage fee paid by group (2% on cost of acquisition)	**–**	8 166	**–**	–
Development fee paid by group (2% on cost of development)**	**–**	4 198	**–**	–
Management fee paid by group	**11 460**	26 986	**653**	1 563
Trade and other payables	**–**	2 031	**–**	38
Relationship – Directors of Fund had indirect interests in Manco				
*** The development fee charged specifically excludes Crowne Plaza JHB – The Rosebank development, included in Hospitality Hotel Developments (Pty) Limited.*				
Majormatic 194 (Pty) Limited (C-Corp) – Hotel operating company *				
(Shareholders: Grapnel (52%) and HTLAM (48%))				
Rental received by group	**117 451**	112 069		–
Trade and other receivables/(payables)	**13 604**	(2 222)		–
Tenant deposit held as security on leases	**(7 187)**	(6 694)		
Relationship – directors of Fund have indirect interest in C-Corp				
Extrabold Hotel Management Company (Pty) Limited – Hotel management company *				
(Shareholders: Grapnel (52%) and HTLAM (48%))				
Management fee paid by hotels	**12 538**	11 077		–
Reimbursement of sales team costs	**1 395**	357		–
Trade and other payables	**3 338**	1 331		–
Relationship – directors of Fund have indirect interest in Extrabold				
The above relates to transactions concluded with C-Corp and affects the variable rental paid to the Fund.				

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
26. RELATED-PARTY TRANSACTIONS continued				
Hospitality Hotel Developments (Pty) Limited – Hotel development company *				
(Shareholders: Grapnel (52%) and HTLAM (48%))				
Refurbishment of Crowne Plaza JHB – The Rosebank	**–**	306 410		–
Development profit from the above (2% of above refurbishment cost)	**–**	6 128		–
Trade and other payables	**–**	4 568		
Relationship – directors of Fund have indirect interest in development company				
Internalisation of Management Company *				
(transaction effected on 1 December 2009)				
Related parties: Grapnel Property Asset Managers (Pty) Limited (Grapnel) (52%) and Hotel Tourism and Leisure Asset Management (Pty) Limited (HTLAM) (48%)				
Upfront purchase price on acquisition of shares in Manco	**123 007**	–	**–**	–
Contingent consideration on acquisition of shares in Manco	**32 842**	–	**–**	–
Relationship – directors of Fund have indirect interest in entities from whom shares were purchased				

** Messrs Aminzadeh and Nelson have indirect interests in the above companies via their shareholdings in HTLAM and Grapnel respectively.*

All transactions were on an arm's length basis.

Key management include the directors whose remuneration is included in note 15.

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES

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

Treasury policy

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

27.1 Interest rate risk

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

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

During the year the swaps with a nominal value of R972 million were cancelled and replaced with swaps with a nominal value of R1 040 million. The mark-to-market value of the swaps amounted to R113 million on cancellation, this cost was capitalised to the Absa loan facility.

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

27.1 Interest rate risk continued

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

	All in fixed rate	Commence-ment date	Maturity	**Fair value at 30 June 2010 R'000**	Fair value at 30 June 2009 R'000
R346,67 million	8,72%	Jun-10	Jun-13	**(2 798)**	
R346,67 million	9,05%	Jun-10	Jun-14	**(3 828)**	
R346,67 million	9,28%	Jun-10	Jun-15	**(4 388)**	
R253 million*	10,45%	Apr-08	May-12		(10 183)
R150 million	11,45%	Aug-08	Aug-13		(9 185)
R150 million**	11,15%	Dec-08	Dec-11		(9 478)
R249 million***	11,97%	Sep-08	Sep-15		(28 330)
R170 million	11,33%	Sep-08	Sep-18		(13 279)
				(11 014)	(70 455)

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

* *Extendable at the election of Absa to May 2014*
** *Extendable at the election of Absa to December 2013*
*** *Step up swap structure – weighted average rate*

Fair value sensitivity analysis for fixed rate instruments

The approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement of R17,95 million in the fair value of derivatives. The approximate impact of a 50 basis point shift downwards in the level of interest rates would be a negative movement of R17,95 million in the fair value of derivatives. Movements in the fair value of derivatives are recognised in profit or loss. The analysis is performed on the same basis for 2009.

Cash flow sensitivity analysis for variable rate instruments

In terms of the floating facilities and the interest swaps each increase/decrease of 50 basis points in the interest rate, this change would affect interest paid by R1,3 million (2009: R0,2 million) per annum. The floating rate sensitivity analysis has been prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. The analysis is performed on the same basis for 2009.

27.2 Liquidity risk

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

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

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

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

27.2 Liquidity risk

	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Group 30 June 2010				
Interest-bearing liabilities	**1 308 371**	**–**	**1 308 371**	**–**
Derivative liability	**11 014**	**12 234**	**989**	**(2 209)**
Trade and other payables	**38 356**	**38 356**	**–**	**–**
Debentures	**1 186 507**	**–**	**–**	**1 186 507**
Debenture interest payable	**69 752**	**69 752**	**–**	
	2 614 000	**120 342**	**1 309 360**	**1 184 298**
Group 30 June 2009				
Interest-bearing liabilities	1 013 564	–	1 013 564	–
Derivative liability	70 456		28 846	41 609
Trade and other payables	52 115	52 115	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	71 847	71 847	–	–
	2 365 894	123 962	1 042 410	1 199 521
Company 30 June 2010				
Trade and other payables	**903**	**903**	**–**	**–**
Debentures	**1 186 507**	**–**	**–**	**1 186 507**
Debenture interest payable	**69 752**	**69 752**	**–**	**–**
	1 257 162	**70 655**	**–**	**1 186 507**
Company 30 June 2009				
Trade and other payables	836	836	–	–
Debentures	1 157 912	–	–	1 157 912
Debenture interest payable	71 847	71 847	–	–
	1 230 595	72 683	–	1 157 912

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

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

	30 June 2010 R'000	30 June 2009 R'000
Property valuation	**3 317 870**	3 404 252
65% thereof	**2 156 616**	2 212 764
Effective borrowings	**1 308 371**	1 013 564
Unutilised borrowing capacity	**848 245**	1 199 200
Facilities available in terms of agreements at 30 June	**1 368 000**	1 263 000
Undrawn facilities	**59 629**	249 436
Gearing ratio	**39,4%**	29,8%

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

27.3 Credit risk

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

In terms of the entity structure there is a concentration of risk with the C-Corp leased properties. All lease agreements within the C-Corp structure are concluded with Majormatic 194 (Pty) Limited. Management receives comprehensive monthly management reports and attends the monthly meetings with the hotel operators in order to monitor performance and identify elements of credit risk.

27.3.1 Credit exposure

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

	GROUP		COMPANY	
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Trade and other receivables				
– Tenant and related receivables	**26 406**	2 620	**–**	–
– Other receivables	**168**	171	**223**	168
	26 574	2 791	**223**	168
Tenant deposits	**(13 759)**	(9 435)	**–**	–
Bank guarantees	**(700)**	(700)	**–**	–

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

The directors are of the opinion that the financial assets have a low credit risk.

27.3.2 Impairment losses

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

	GROUP			
	Gross carrying value	Gross carrying value	**Impairment**	Impairment
	2010 R'000	2009 R'000	**2010 R'000**	2009 R'000
Current (< 30 days)	**26 406**	2 620	**–**	–
Total	**26 406**	2 620	**–**	–

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

	GROUP	
	2010 R'000	2009 R'000
Balance at the beginning of the year	–	504
Impairment loss recognised	–	(504)
Balance at the end of the year	–	–

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

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

27.4 Capital structure

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

During 2010, the underlying debt to assets ratio increased from 29,8% to 39,4% at 30 June 2010.

27.5 Carrying values and fair values of financial instruments

Financial assets and liabilities comprise long-term borrowings and other payables, derivative instruments, cash and receivables. The fair values of all financial instruments with the exception of linked debentures are substantially the same as the carrying amounts reflected on the statement of financial position. The total carrying value of financial liabilities held for trading by the group is R11,01 million (2009: R70,45 million). The company has no financial liabilities held for trading. The total carrying value of loans and receivables at amortised cost held by the group is R37,1 million (2009: R12,45 million) and of those held by the company is R1 516 million (2009: R1 477 million). The total carrying value of financial liabilities at amortised cost held by the group is R2 601 million (2009: R2 293 million) and of those held by the company is R1 257 million (2009: R1 231 million). The following summarises the significant methods and assumptions used in estimating the fair value of financial instruments. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach is used.

Debentures

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

Derivatives

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

Non-derivative financial liabilities

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

Trade and other receivables

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

Fair value hierarchy

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

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

27. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES continued

27.5 Carrying values and fair values of financial instruments continued

	Level 1	Level 2	Level 3	Total
30 June 2010				
Derivative financial assets	**–**	**–**	**–**	**–**
Derivative financial liabilities	**–**	**11 014**	**–**	**11 014**
	–	**11 014**	**–**	**11 014**
30 June 2009				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	70 456	–	70 456
	–	70 456	–	70 456

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

28. BUSINESS COMBINATIONS

28.1 Internalisation of the management company

On 1 December 2009 the group obtained control of Hospitality Property Fund Managers (Pty) Limited ('Manco'), the external property asset management company that managed Hospitality Property Fund Limited ('Hospitality') by acquiring 100% of the shares and voting interests in the company. The effect of the transaction resulted in the internalisation of the management from an external manager.

Over the past few years there has been a significant shift from external to internally managed property companies both internationally and in South Africa. The advantages of internalising include the yield enhancement from the lower cost of internal management, the elimination of perceived conflicts of interests and the further alignment of interests of key management with the interests of Hospitality linked unitholders.

The effect of the internalisation resulted in no additional revenue to the Fund since December 2009 due to intercompany charges being eliminated on consolidation but an increase in net profit of R2,7 million as a result of reduced expenses net of associated finance charges. If the acquisition had occurred on 1 July 2009, there would be no increase in consolidated revenue but net profits would have increased by R4,4 million.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	R'000	
Consideration transferred		
Fair value – cash	82 000	
Fair value – A-linked units issued	19 165	(1 521 014 units@ R12,60)*
Fair value – B-linked units issued	21 842	(1 521 014 units @ R14,36)*
	123 007	

** The fair value of the linked units was based on the 30-day VWAP of the listed unit price on the JSE for the period preceding 1 December 2009.*

Contingent consideration

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

28. BUSINESS COMBINATIONS continued

28.1 Internalisation of the management company continued

Contingent consideration continued

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

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

Identifiable assets acquired and liabilities assumed	R'000
Furniture and equipment	732
Bank	438
Sundry creditors	(438)
Total net identifiable assets	732

Goodwill	R'000
Fair value of acquiree	153 554
Less: Value of identifiable assets	(732)
Goodwill	152 822

The goodwill is attributable mainly to the improved profitability of the group following the internalisation of the management company and the acquired skills and technical talent acquired through the workforce. None of the goodwill is expected to be deducted for income tax purposes.

Fair value: Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

Transactions separate from the acquisition

The group incurred acquisition related costs of R2,302 million relating to external legal fees, external transaction sponsor and independent advisory fees, independent reporting accountants fees, directors' fees, printing and press announcements costs, JSE listing and inspection costs. An amount of R2,122 million was expensed and the balance of R0,180 million relating to share issue expenses was allocated against share premium.

28.2 Acquisition of Protea Hotel Edward, Durban

On 1 June 2010 the group obtained control of the 4-star hotel known as 'Protea Hotel Edward' from Protea Hospitality Group (Pty) Limited and its wholly owned subsidiary, Swanvest 258 (Pty) Limited. This acquisition is in line with the group's objective of growing its investment portfolio in a controlled manner through the addition of quality assets which will further diversify the portfolio and which have the potential to enhance unitholder returns. The hotel has been acquired as a going concern.

Since the acquisition date, the consolidated revenue included R1,4 million and the consolidated profit included R0,5 million relating to the acquiree. If the acquisition had occurred on 1 July 2009, the increase in consolidated revenue would have been R12,1 million and the consolidated profit would have increased by R1,1 million.

28. BUSINESS COMBINATIONS continued

28.2 Acquisition of Protea Hotel Edward, Durban continued

The hotel was purchased for a total purchase consideration of R110,4 million. The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	R'000
Consideration transferable	
Cash to be paid on registration of property transfer	110 400
Identifiable assets acquired and liabilities assumed	
Investment property at fair value	110 987
Total net identifiable assets	110 987
Goodwill	
Fair value of consideration transferred	110,400
Less: Value of identifiable assets	110,987
Negative goodwill	(587)

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

Transactions separate from the acquisition

The group incurred acquisition related costs of R0,145 million relating to legal fee and press announcements costs which was expensed.

29. OPERATING SEGMENTS

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

- Fixed lease agreements – lease agreements where the major portion of the rental is fixed.
- C-Corp lease agreements – lease agreements with Majormatic 194 (Pty) Limited based on approximately 50% of the initial rental being fixed and the remaining being a variable rental equivalent to 90% of the hotels' EBITDA after deducting the fixed rental portion.
- F&V lease agreements – lease agreements wherein approximately 50% of the initial rental is fixed and the remaining 50% is variable.
- Variable lease agreements – rentals are based on the EBITDA of the hotel.

Other operations include the Funds administrative and finance costs. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

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

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

29. OPERATING SEGMENTS continued

R'000s	Fixed lease agreements	C–Corp lease agreements	F&V lease agreements	Variable lease agreements	Total of all operating segments
Statement of comprehensive income – 30 June 2010					
Segment revenue	**137 844**	**117 951**	**1 364**	**8 743**	**265 902**
Expenditure	**(6 413)**				**(6 413)**
Segment results	**131 431**	**117 951**	**1 364**	**8 743**	**259 489**
Statement of comprehensive income – 30 June 2009					
Segment revenue	129 528	112 684	–	14 474	256 686
Expenditure	–	–	–	–	–
Segment results	129 528	112 684	–	14 474	256 686
Statement of financial position – 30 June 2010					
Non-current assets					
Investment properties	**1 320 826**	**1 580 757**	**110 987**	**305 300**	**3 317 870**
Current assets					
Trade receivables	**1 618**	**16 888**	**1 100**	**213**	**19 819**
Segment assets	**1 322 444**	**1 597 645**	**112 087**	**305 513**	**3 337 689**
Statement of financial position – 30 June 2009					
Non-current assets					
Investment properties	1 411 000	1 868 780	–	124 472	3 404 252
Current assets					
Trade and other receivables	538	179	–	1 764	2 481
Segment assets	1 411 538	1 868 959	–	126 236	3 406 733

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

	2010 R'000	2009 R'000
Revenues		
Total revenue for reportable segments	**265 902**	256 686
Other revenue	**(352)**	5 233
Consolidated revenue	**265 550**	261 919
Profit or loss		
Total profit or loss for reportable segments	**259 489**	256 686
Other profit or loss		
Unallocated amounts:	**–**	–
Net finance costs	**(108 593)**	(63 172)
Debenture interest	**(127 732)**	(162 238)
Negative goodwill	**587**	–
Fair value adjustments	**(310 207)**	93 349
Other corporate expenses	**(25 432)**	(31 276)
(Loss)/profit before taxation	**(311 888)**	93 349

29. OPERATING SEGMENTS continued

	2010 R'000	2009 R'000
Assets		
Total assets for reportable segments	**3 337 689**	3 406 733
Other assets		
Other unallocated amounts	**170 874**	10 138
Consolidated total assets	**3 508 563**	3 416 871
Liabilities		
Total liabilities for reportable segments	**–**	–
Other liabilities		
Other unallocated amounts	**2 928 287**	2 607 606
Consolidated total liabilities	**2 928 287**	2 607 606

Geographical segments

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

Major customer

Revenues from one customer of the group's four segments represents approximately R117,4 million (2009: R112,0 million) of the group's total revenues.

30. PROPERTY PORTFOLIO INFORMATION

	Gross rental income %	* Number of rooms %
By lease type		
Fixed leases	49	26
C-Corp leases	44	49
F & V leases	1	9
Variable leases	6	16
	100	100
Geographic profile		
Gauteng	64	52
KwaZulu-Natal	13	20
Western Cape	15	18
Eastern Cape	5	5
Mpumalanga	3	5
	100	100

Vacancy

The company had no vacant space at year end.

	Gross rental income %	* Number of rooms %
Tenant profile		
Hotels with management companies that have national representation	59	76
Tenant managed hotels	41	24
	100	100
Lease expiry profile		
One to three years	6	8
Three to five years	15	16
More than five years	79	76
	100	100

** Indicates number of rooms at 30 June 2010 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel*

31. INVESTMENT PROPERTIES

	Property title	HPF ownership	Property location	Star grading	Number of rooms	Valuation 30 June 2010
C-Corp lease						
Crowne Plaza Johannesburg – The Rosebank	Freehold	Direct	Rosebank, Johannesburg, Gauteng	4	318	400 294 000
Holiday Inn Sandton – Rivonia Road	Freehold	Direct	Sandton, Gauteng	4	301	400 230 000
Mount Grace Country House & Spa	Freehold	Direct	Magaliesburg, Gauteng	5	121	239 000 000
Protea Hotel Victoria Junction	Freehold	Sectional title units (84% units in the scheme)	Waterfront, Cape Town, Western Cape	4	172	164 000 000
Protea Hotel Marine	Freehold	Direct	Port Elizabeth, Eastern Cape	4	98	99 000 000
Protea – The Richards	Freehold	Direct	Richards Bay, KwaZulu-Natal	4	135	50 900 000
Protea Hotel Imperial	Freehold	Direct	Pietermaritzburg, KwaZulu-Natal	3	70	50 000 000
Protea Hotel Hazyview	Freehold	Direct	Hazyview, Mpumalanga	3	87	41 000 000
Protea Hotel – The Winkler	Freehold	Direct	White River, Mpumalanga	3	87	38 000 000
Protea Hotel Richards Bay	Freehold	Direct	Richards Bay, KwaZulu-Natal	3	66	30 000 000
The Bayshore Inn	Freehold	Direct	Richards Bay, KwaZulu-Natal	2	102	33 000 000
Protea Hotel Hluhluwe & Safaris	Freehold	Direct	Hluhluwe, KwaZulu-Natal	3	75	35 333 000
Total C-Corp lease					1 632	1 580 757 000
Fixed lease						
Birchwood Executive Hotel and Conference Centre	Freehold	Direct	Boksburg, Gauteng	3	450	774 000 000
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg, KwaZulu-Natal	4	112	255 000 000
Kopanong Hotel and Conference Centre	Freehold	Sectional title (80% of units in the scheme)	Benoni, Gauteng	4	228	129 000 000
Premiere King David	Freehold	Direct	East London, Eastern Cape	3	80	52 000 000
Total fixed lease					870	1 210 000 000
Variable lease						
Radisson Blu Waterfront	Freehold	Sectional title units (46% of units in the scheme)	Waterfront, Cape Town, Western Cape	5	182	177 000 000
Courtyard Arcadia	Freehold	50% in the shareblock-owning company	Arcadia, Pretoria, Gauteng	4	69	42 000 000
Courtyard Cape Town	Leasehold	50% in the shareblock-owning company	Mowbray, Cape Town, Western Cape	4	70	7 100 000
Courtyard Eastgate	Freehold	50% in the shareblock-owning company	Bruma Lake, Johannesburg, Gauteng	4	69	25 500 000
Courtyard Rosebank	Freehold	32% in the shareblock-owning company	Rosebank, Johannesburg, Gauteng	4	83	32 800 000
Courtyard Sandton	Freehold	26% in the shareblock-owning company	Sandton, Gauteng	4	69	20 900 000
Total variable lease					542	305 300 000
F&V lease						
Inn on the Square	Freehold	Direct	Cape Town CBD, Western Cape	3	165	110 826 000
Protea Edward	Freehold	Direct	OR Tambo Parade Drive, Durban	4	101	110 987 000
					266	221 813 000
Grand total					3 310	3 317 870 000

32. SHAREHOLDER ANALYSIS

	A-linked units				B-linked units			
SHAREHOLDER SPREAD	**Number of unit-holdings**	**%**	**Number of units**	**%**	Number of unit-holdings	%	Number of units	%
1 – 1 000 units	**151**	**22,95**	**74 521**	**0,12**	196	12,42	109 515	0,17
1 001 – 10 000 units	**323**	**49,09**	**1 216 963**	**1,93**	1 077	68,25	4 380 148	6,94
10 001 – 100 000 units	**101**	**15,35**	**3 963 505**	**6,28**	244	15,46	6 591 344	10,44
100 001 – 1 000 000 units	**72**	**10,94**	**23 096 186**	**36,60**	49	3,11	21 354 790	33,84
1 000 001 units and over	**11**	**1,67**	**34 760 926**	**55,07**	12	0,76	30 676 304	48,61
Total	**658**	**100,00**	**63 112 101**	**100,00**	1 578	100,00	63 112 101	100,00
DISTRIBUTION OF UNITHOLDERS								
Banks	**3**	**0,46**	**457 105**	**0,72**	2	0,13	5 471	0,01
Close corporations	**9**	**1,37**	**40 981**	**0,06**	17	1,08	104 672	0,17
Empowerment	**3**	**0,46**	**17 036 177**	**26,99**	2	0,13	10 774 595	17,07
Endowment funds	**24**	**3,65**	**792 129**	**1,26**	22	1,39	390 484	0,62
Individuals	**311**	**47,26**	**1 004 887**	**1,59**	1 128	71,48	5 974 130	9,47
Insurance companies	**20**	**3,04**	**6 679 510**	**10,58**	23	1,46	8 624 935	13,67
Investment companies	**7**	**1,06**	**207 425**	**0,33**	9	0,57	203 551	0,32
Medical schemes	**9**	**1,37**	**891 323**	**1,41**	5	0,32	89 455	0,14
Mutual funds	**58**	**8,81**	**25 690 181**	**40,71**	52	3,30	16 528 935	26,19
Nominees and trusts	**109**	**16,56**	**1 936 113**	**3,07**	207	13,10	3 328 550	5,26
Other corporations	**3**	**0,46**	**4 375**	**0,01**	11	0,70	891 437	1,41
Private companies	**25**	**3,80**	**964 967**	**1,53**	51	3,23	4 825 044	7,65
Public companies	**2**	**0,30**	**3 547**	**0,01**	2	0,13	5 618	0,01
Retirement funds	**75**	**11,40**	**7 403 381**	**11,73**	47	2,98	11 365 224	18,01
Total	**658**	**100,00**	**63 112 101**	**100,00**	1 578	100,00	63 112 101	100,00
PUBLIC/NON-PUBLIC UNITHOLDERS								
Non-public unitholders	**5**	**0,76**	**11 856 740**	**18,79**	9	0,70	12 513 178	19,83
Directors and associates of company holdings	**4**	**0,61**	**2 343 728**	**3,72**	7	0,64	3 000 166	4,76
Strategic holdings (more than 10%)	**1**	**0,15**	**9 513 012**	**15,07**	2	0,06	9 513 012	15,07
Public unitholders	**653**	**99,24**	**51 255 361**	**81,21**	1 569	99,30	50 598 923	80,17
Total	**658**	**100,00**	**63 112 101**	**100,00**	1 578	100,00	63 112 101	100,00
Beneficial unitholders holding 5% or more								
Nobuntu Investments II (Pty) Limited			**9 513 012**	**15,07**				
Coronation Fund Managers			**9 280 640**	**14,71**				
Nobuntu Investments (Pty) Limited			**5 000 000**	**7,92**				
STANLIB			**4 632 918**	**7,34**				
Old Mutual			**4 012 479**	**6,36**				
Investment Solutions			**3 468 574**	**5,50**				
Rand Mutual Assurance Company			**3 223 588**	**5,10**				
Total			**39 131 211**	**62,00**				
Beneficial unitholders holding 3% or more								
Nobuntu Investments II (Pty) Limited							9 513 012	15,07
Old Mutual							6 759 831	10,71
Investec							5 623 414	8,91
Transnet Pension Fund							3 761 479	5,96
Metope Investment Holdings (Pty) Limited							3 494 760	5,54
Metropolitan							3 269 084	5,18
Investec Solutions							2 567 732	4,07
Total							34 989 312	55,44

Event	Date
Financial year-end	30 June
Annual general meeting	24 November 2010
Announcement of interim results (published and posted)	February
Announcement of annual results (published)	August
Annual report posted to unitholders	September

Distribution timetable	Date
Distribution No. 9 for the year ended 30 June 2010	
Declaration date	18 August 2010
Last date to trade *cum* interest	3 September 2010
Linked units will trade *ex* interest	6 September 2010
Record date	10 September 2010
Payment date of interest distribution	13 September 2010
Distribution No. 10 for the 6 months ending 31 December 2010	
(Expected dates)	
Declaration date	16 February 2011
Last date to trade *cum* interest	4 March 2011
Linked units will trade *ex* interest	7 March 2011
Record date	11 March 2011
Payment date of interest distribution	14 March 2011

Distribution policy

1. DISTRIBUTION FOR THE A DEBENTURES

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

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

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

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

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

1.5 for the second distribution periods for the financial years ended June 2008 to 2011, a return equal to the determined or calculated second distribution for the corresponding second distribution period for the prior year, escalated by 5%;

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

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

2. DISTRIBUTION FOR THE B DEBENTURES

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

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 sixth annual general meeting of the shareholders of Hospitality Property Fund Limited will be held at Holiday Inn Sandton, 123 Rivonia Road, Sandton on Wednesday, 24 November 2010 at 10:00 to conduct the following business:

1. To receive and consider the annual financial statements of the company and the group for the year ended 30 June 2010 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:

2.1 Y Aminzadeh
BA (Webster), MBA (Trinity)

Mr Aminzadeh was awarded a Master of Business Administration degree from Trinity College in the United States. He completed his Bachelors degree in Business Administration with honours from Webster University in The Netherlands. He further carried out studies in management at Carnegie Mellon University in the United States in 1985.

Mr Aminzadeh has more than 20 years experience in the tourism and hospitality industry.

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

2.2 W C Ross
CTA, CA(SA)

Mr Ross has over 33 years' experience in the merchant and investment banking industry and was, until his retirement, responsible for the project and structured finance and private equity departments of Nedcor Investment Bank Limited as well as its risk and compliance functions. Mr Ross chaired the credit committee of Nedcor Investment Bank and Nedbank Capital.

Post-retirement Mr Ross has accepted directorships on a number of listed and unlisted companies, including Kagiso Media Limited, Vunani Limited and Capital Property Fund (chairman).

Mr Ross was appointed as an independent non-executive director of Hospitality in April 2007 and is the chairman of the audit committee.

3. To approve the non-executive directors' fees payable for the period 1 July 2010 to 30 June 2011. It is proposed that the following fees be paid:

	Chairman Rand	Member Rand
Board (per annum)	184 437	147 550
Audit committee (per annum)	46 575	37 260
BEE committee (per annum)	18 630	14 904
Investment committee (per meeting)	8 539	6 831
Nomination committee (per meeting)*	4 658	3 726
Remuneration committee (per meeting)	4 658	3 726
C-Corp restructure committee (per meeting)#	8 539	6 831

** The proposed fee is in anticipation of a formal nomination committee which will be established at the November 2010 board meeting.*
 # Specialist committee established to investigate alternatives to or a possible restructure of the existing C-Corp. See details on page 33.

The above fees represent a 15% increase to prior year and have been benchmarked against an independent industry survey. The survey contained comparative data from 16 major property entities.

The fee increase is further motivated by the increased responsibility and accountability by the members of the board and its sub-committees as a result of the recent introduction of King III and the Companies Act, 71 of 2008, which will become effective in due course, and the resultant increase in time spent by the non-executive directors in order to perform their duties.

The proposed fees were recommended by the remuneration committee and approved by the board for consideration at the annual general meeting.

4. To approve the re-appointment of KPMG Inc. as auditor of the company, and Ms T Middlemiss as the designated audit partner until the next annual general meeting. The audit committee is of the opinion that KPMG Inc. is independent of the company and nominates their re-appointment.

5. To authorise the directors and specifically the audit committee to determine and pay the auditors' remuneration for the year ended 30 June 2010 and for the year ending 30 June 2011.

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

6.1 Special resolution number 1: Repurchase of shares

"Resolved that the directors be authorised by way of a general authority to approve the repurchase by the company or its subsidiary, of its "A" and "B" shares, upon such terms and conditions and in such amounts that the directors of the company may from time to time determine, subject to the company's articles of association, the JSE Limited ("JSE") Listings Requirements and the Companies Act, 61 of 1973, or the Companies Act, 71 of 2008, (whichever is applicable at the time of the repurchase of shares), on the following basis:

(a) each repurchase of "A" or "B" shares must be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party (reported trades are prohibited);
(b) the number of "A" and "B" shares respectively which may be acquired pursuant to this authority in any financial year may not in the aggregate exceed the lower of either 20% or such percentage as prescribed in the Companies Act, 71 of 2008, (if applicable) of the company's share capital of the relevant class from the date of the grant of this authority;
(c) repurchases may not be made at a price greater than 10% above the weighted average of the respective market values of the "A" and the "B"-linked units for the five business days immediately preceding the date on which the repurchase is effected;
(d) repurchases may not take place during a prohibited period as defined in the JSE Listings Requirements unless the company has in place a repurchase programme where the dates and quantities of securities to be traded are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
(e) the company shall release an announcement on SENS and in the press, as soon as it has, on a cumulative basis repurchased "A" or "B" shares, as the case may be, which constitute 3% of the initial number of shares of such class in issue (at the time that authority from shareholders for the repurchase was granted), and for each 3% in aggregate of the initial number of such class of shares repurchased thereafter;
(f) this general authority shall be valid until the next annual general meeting of the company, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
(g) at any point in time, the company may only appoint one agent to effect any repurchases on the company's behalf; and
(h) after such repurchases, the company will still comply with the JSE Listings Requirements concerning shareholder spread requirements.

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

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

Reason for special resolution number 1

The reason for and effect of special resolution number 1 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 repurchase of its "A"-linked units and "B"-linked units, on the terms set out above.

Statement of the board's intention

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

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

The following additional information, some of which may appear elsewhere in the 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 32
- Major beneficial linked unitholders – page 82
- Directors' interests in linked units – page 44
- Share and debenture capital of the company – page 61

Material change statement

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

Directors' responsibility statement

The directors, whose names appear on page 22 of the annual report collectively and individually, accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information required by law and the JSE Listings Requirements.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors whose names appear on page 22 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the company's financial position.

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

"Resolved that the unissued "A" shares and "B" shares in the authorised but unissued 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, 61 of 1973, or the Companies Act, 71 of 2008, (whichever is applicable at the time of the allotment and issue of the shares), the company's memorandum and articles of association and the Listings Requirements of the JSE, to such person(s) and upon such terms and conditions as the directors may determine:

- as the consideration for the acquisition by the company or any of its subsidiaries of immovable property, or for shares in and/or loan accounts against companies owning immovable property;
- provided that the directors are not authorised to issue more "A" shares and "B" shares than such number of "A" shares and "B" shares that constitute 5% of the number of "A" shares and "B" shares in the company's issued share capital as at the date of the passing of this resolution (the determination of which shall exclude any specific issue of shares approved by shareholders) and provided that each "A" share shall be linked to one "A" debenture and that each "B" share shall be linked to one "B" debenture, such authority to expire at the next annual general meeting of the company."

Reason for ordinary resolution number 1

The reason for ordinary resolution number 1 is that the directors may consider it beneficial to enable the company to take advantage of acquisition opportunities which might present themselves in the future. Being able to act promptly on such opportunities through the issue of shares as whole or part consideration, puts Hospitality at an advantage where negotiations are concerned.

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, 61 of 1973, or the Companies Act, 71 of 2008, (whichever is applicable at the time of the issue of shares for cash) 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;
(c) the number of "A" shares or "B" shares, as the case may be, issued for cash shall not in aggregate in any one financial year of the company exceed 10% of the company's issued shares of the relevant class (or such other percentage permitted from time to time by the JSE for issues for cash). The number of "A" shares and "B" shares which may be issued for cash shall be

based on the number of shares of the relevant class in issue at the date of the application, aggregated (where applicable) with any shares in the relevant class that may be issued in future arising from the conversion of option/convertible securities, less any shares of the relevant class issued, or to be issued in future arising from options/convertible securities issued by the company during the current financial year, provided that any shares of the relevant class to be issued for cash pursuant to a rights issue (which has been announced and is irrevocable and fully underwritten) or acquisition (concluded and final terms announced) may be included as though they were shares of the relevant class in issue at the date of application;

(d) the maximum discount at which A-linked units or B-linked units, as the case may be, may be issued in terms of this authority is 10% (or such other percentage as specified by the Listings Requirements of the JSE) of the weighted average trade price on the JSE of the relevant linked units over 30 business days prior to the date on which the price of the issue is determined or agreed by the directors of the company;

(e) the company shall, after the company has issued shares of the relevant class as part of an issue of linked units for cash which represent, on a cumulative basis within a financial year, 5% or more of the number of shares of the relevant class in issue prior to the issue, publish an announcement containing full details of the issue (including the number of linked units issued), the average discount to the weighted average traded price of the linked units over the 30 days prior to the date that the price was determined and the effect of the issue on the net asset value, earnings per linked unit and headline earnings per linked unit, or any other announcements(s) that may be required in such regard in terms of the JSE Listings Requirements which may be applicable from time to time; and

(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."

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.

Reason for ordinary resolution number 2

The reason for ordinary resolution number 2 is that the directors may consider it beneficial to enable the company to take advantage of business opportunities which might present themselves in the future. Being able to act promptly on such opportunities puts Hospitality at an advantage where negotiations are concerned.

6.4 Ordinary resolution number 3: Signature of documentation

"Resolved that any director of the company or the company secretary be and is hereby authorised on behalf of the company to sign any documents and do all such things as may be necessary in order to give effect to those resolutions above that are approved by shareholders at the sixth annual general meeting of the company."

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

VOTING AND PROXIES

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

The attached form of proxy is only to be completed by those shareholders who are:
- holding shares in certificated form; or
- recorded on the company's sub-register in dematerialised electronic form with "own name" registration.

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

The transfer secretaries of the company, namely Computershare Investor Services (Pty) Limited, must receive forms of proxy by no later than 10:00 on Monday, 22 November 2010. 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

L R van Onselen
For HPF Management (Pty) Limited

Company secretary
18 August 2010

PROXY FORM FOR SHAREHOLDERS
Hospitality Property Fund Limited
(Incorporated in the Republic of South Africa)
(Registration number: 2005/014211/06)
Share code for A-linked units: HPA
ISIN for A-linked units: ZAE000076790
Share code of B-linked units: HPB
ISIN for B-linked units: ZAE000076808
('Hospitality' or 'the company')

THIS FORM OF PROXY IS ONLY FOR USE BY:

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

For completion by the aforesaid registered shareholders of Hospitality who are unable to attend the sixth annual general meeting of the company to be held at Holiday Inn Sandton, 123 Rivonia Road, Sandton on Wednesday, 24 November 2010 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 and/or __________ 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 2010 annual financial statements			
2.1	Re-election of Mr Y Aminzadeh			
2.2	Re-election of W C Ross			
3.	To approve the non-executive directors' fees for 2011			
4.	Re-appointment of KPMG Inc. as auditors			
5.	Auditors' remuneration for 2010 and 2011			
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 to sign documents			

Signed at __________ on __________ 2010

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 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 holders of shares any one of such persons may vote at any meeting in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present or represented at the meeting, that one of the said persons whose name appears first in the register of shareholders of such shares or his proxy, as the case may be shall alone be entitled to vote in respect thereof.

10. On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll a shareholder who is present in person or represented by a proxy shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him bears to the aggregate amount of the nominal value of all the shares issued by the company.

11. The chairman of the meeting may reject or accept any proxy which is completed and /or received other than in accordance with the instructions, provided that he shall not accept a proxy unless he is satisfied as to the matter in which a shareholder wishes to vote.

12. This form of proxy must be lodged or posted or faxed to the transfer secretaries, Computershare Investor Services (Pty) Limited, at 70 Marshall Street, Johannesburg or P O Box 61051, Marshalltown, 2107) or faxed to +27+11 688 5238 no later than 10:00 on Monday, 22 November 2010.

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.

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

1. **PROTEA HOSPITALITY GROUP**
Protea Hotels is the largest hotel group in Africa with the most extensive network – over 125 fine hospitality establishments in nine countries on the African continent. The company was founded in 1984 and has grown its portfolio and brands since. The group's brands include Protea Hotels (including the lifestyle brand Protea Hotel Fire & Ice!) and African Pride Hotels, Lodges and Country Houses. In April 2009 a consortium represented by Investec Private Equity, Protea BBBEE partners and management purchased the company's equity back from Australian-based Stella Group. This transaction resulted in the Group reverting to being a 100% wholly owned South African subsidiary.

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

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

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

Extrabold is owned by GPG (58%) and HTLAM (42%). The management team has substantial supporting skills acquired in areas such as sales and marketing, finance, information technology, engineering and analyses.

3. **CITY LODGE HOTELS LIMITED**
The JSE listed City Lodge Hotels Limited ('City Lodge') is one of South Africa's leading hotel groups, with 50 hotels under management, predominantly in the limited service segment. The group's hotel brands include Road Lodge, Town Lodge, City Lodge and Courtyard. Hospitality co-owns five Courtyard properties in its portfolio with City Lodge. The Courtyards in Arcadia, Cape Town and Eastgate are fully owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

4. **THE REZIDOR HOTEL GROUP**
The Rezidor Hotel Group is listed on the Brussels stock exchange and is one of Europe's leading hotel management companies. The group manages and franchises under the Radisson Blu, Park Inn, Regent, Country Inn and Hotel Missoni brands.

Radisson Blu Waterfront, in which Hospitality has an interest, has entered into a management agreement with the Rezidor Hotel Group.

5. **PREMIER HOTELS & RESORTS INTERNATIONAL**
The King David Premiere in East London is managed by Premier Hotels & Resorts International, which manages five hotels in South Africa, the majority of which are situated in the Eastern Cape. The management company has been managing the hotel since the listing of the company, yet the hotel was rebranded in mid-2006 (previously Protea Hotel East London).

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

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

8. **KOPANONG HOTEL AND CONFERENCE CENTRE**
The tenant and hotel management company at Kopanong Hotel & Conference Centre has been managing and operating the hotel since the listing of the company. The company also manages the rental pool of the sectional title units at the hotel.

9. **THREE CITIES HOTEL GROUP**
The Three Cities Group manages and markets over 40 tourism and leisure properties in southern Africa encompassing four distinctive portfolios – City Hotels, Resorts, Exceptional Safaris and the Exceptional Collection. In addition Three Cities has become a leader of private tertiary training and education for the hospitality industry in South Africa. The International Hotel School opened its doors in 1994 and has grown to become the largest private hospitality training provider in South Africa with campuses in Cape Town, Durban and Sandton. In 2002, Three Cities formed a specialised theme park management company with local empowerment and overseas partners to bid for and manage the largest Marine Theme Park in Africa – uShaka Marine World, which was being developed in Durban, South Africa. uShaka Management now manages the fifth largest aquarium in the world.

Corporate information

SECRETARIES AND MANAGERS
HPF Management (Pty) Limited
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REGISTERED OFFICE
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Melrose Estate
Johannesburg
(P O Box 522195, Saxonwold, 2132)

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

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

SPONSORS
Rand Merchant Bank, a division of FirstRand Bank Limited
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton, 2196
(P O Box 786273, Sandton, 2146)

TRANSFER SECRETARIES
Computershare Investor Services (Pty) Limited
Ground Floor
70 Marshall Street
Johannesburg, 2001
(P O Box 61051, Marshalltown, 2107)

TRUSTEE TO DEBENTURE HOLDERS
Edward Nathan Sonnenberg Inc.
150 West Street
Sandown, 2196
(P O Box 783347, Sandton, 2146)

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Hospitality
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