Hospitality PROPERTY FUND

INTEGRATED ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

BOARD OF DIRECTORS

Comprising a majority of independent directors

THE FUND AT A GLANCE

Investing solely in the hospitality and leisure sectors

FIVE-YEAR OVERVIEW

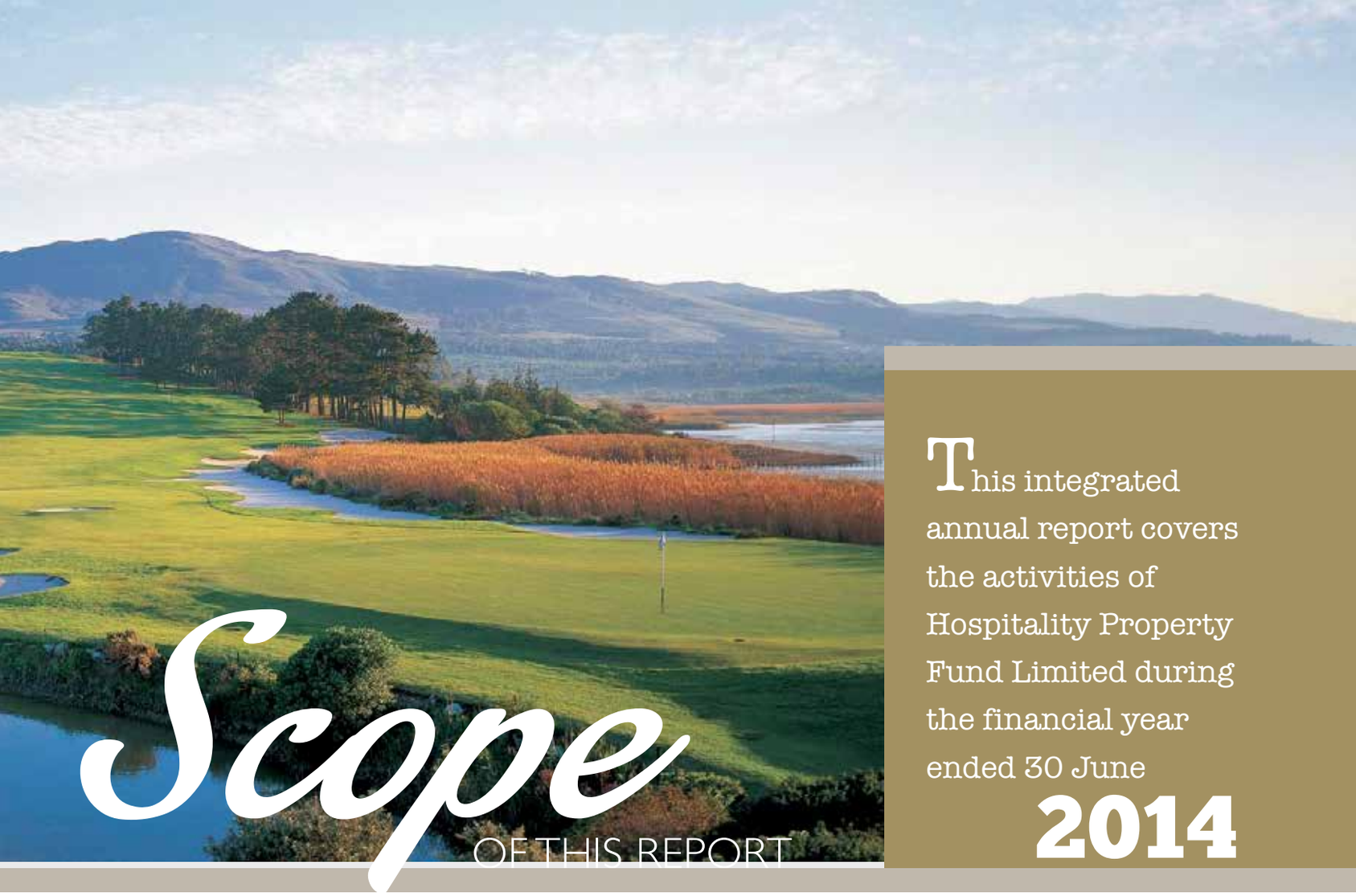
Making the comparisons

PERFORMANCE HIGHLIGHTS

Strong year-on-year distribution growth returns

PORTFOLIO OVERVIEW

26 hotel and resort properties valued at R4.83 billion



Scope OF THIS REPORT

This integrated annual report covers the activities of Hospitality Property Fund Limited during the financial year ended 30 June **2014**

This integrated annual report covers the activities of Hospitality Property Fund Limited ("Hospitality" or "the Fund" or the "Company") during the financial year ended 30 June 2014.

The board acknowledges its responsibility for the integrity of the integrated annual report. In line with the International Integrated Reporting Framework on materiality, the report includes all such information about matters that substantively affect the organisation's ability to create and sustain value over the short, medium and long term.

Since adopting integrated reporting in the 2011 financial year, Hospitality has continued to improve and continuously refine its reporting. The aim is to provide an integrated view of the Fund's strategy and business model, as well as the underlying value drivers in order for all stakeholders to monitor progress against strategic objectives. As the only specialised hotel REIT in South Africa, Hospitality's performance is directly impacted by real estate fundamentals as well as the state of the hospitality and leisure market, and accordingly it has provided comment on both sectors.

The report provides a sensitivity analysis to changing occupancy, room rates and profitability margins. A detailed review of risks facing the Fund, presents further insights to stakeholders, including the current and planned controls to mitigate these risks.

The report includes commentary on Hospitality's operational performance in the business environment, providing delivery towards its strategies for growth.

The "social" commentary discusses its impact on all stakeholders comprising Hospitality's management and employees, suppliers, customers and unitholders as well as the communities in which its hotels and resorts conduct their business.

The "environmental" commentary outlines the physical environment in which the hotels and resorts operate. "Economic and financial" commentaries provide a discussion of the Fund's portfolio which aims to deliver positive returns for unitholders and bondholders. In its 2014 integrated annual report the Fund provides a transparent account of its activities against the reality of the business environment whilst disclosing new and proactive initiatives that have been implemented to create value for all stakeholders and deliver a sustainable business which is a material contributor to the property investment and hospitality sectors of South Africa.

What drives value in a hotel property?
PAGE 20

From the desk of the CEO
PAGE 50

Contents

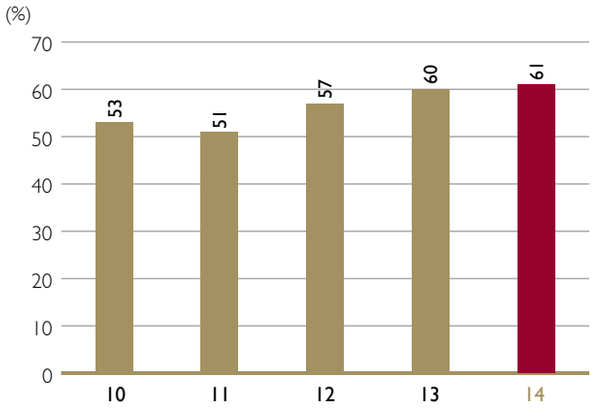
How does Hospitality remunerate?
PAGE 75

Performance HIGHLIGHTS

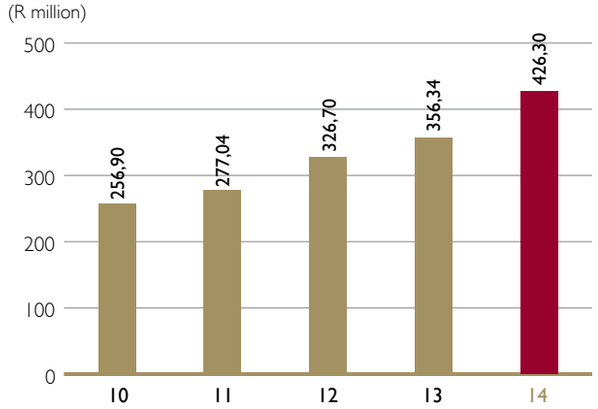
Rental income increased 19.6% to R426.3 million

RevPAR grew by 16.5% and was well ahead of industry

Occupancy*



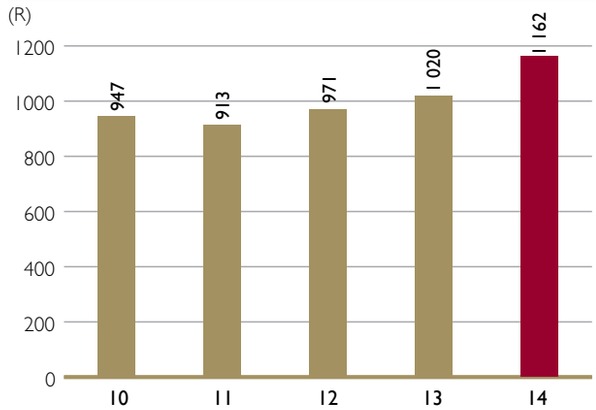
Rental income



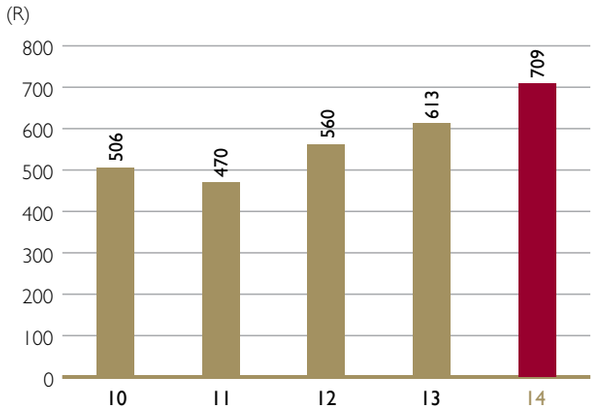
** Portfolio subject to variable rental income and excluding conference hotels*

ance

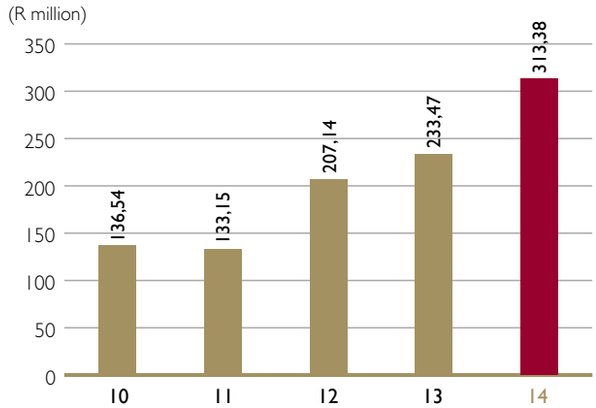
ADR* (average daily rate)



RevPAR* (revenue per available room)



EBITDA of hotels subject to variable rental



Fund at a GLANCE

Mission and strategy

Hospitality is the only specialised Real Estate Investment Trust ("REIT") investing solely in the hospitality and leisure sectors. The Fund offers investors exposure to the growth potential of both the hospitality and property industries. This is achieved through:

- Investment in a select portfolio of hotel and leisure properties, increasingly focusing on large hotel properties in major metropolitan centres.
- Implementing an active asset management strategy and continually reviewing the composition of the portfolio to maximise the return on assets.
- Ensuring that revenues derived from the hotel operations, which flow through to the Fund as rental income, are optimised.

Hospitality's strategic objectives are to optimally grow linked unitholder returns while diversifying and managing risk and at the same time maintaining high standards of corporate citizenship and sustainable development.

Adopting an optimal capital structure is a priority for sustainable growth.

Business *model*

Hospitality Property Fund Limited is a REIT offering investors a unique investment vehicle in the hospitality sector through the ownership of select hotel and leisure properties. The Fund is a publicly traded company and is listed on the Main Board of the JSE Limited (JSE) under the "Financials – Speciality REIT" sector.

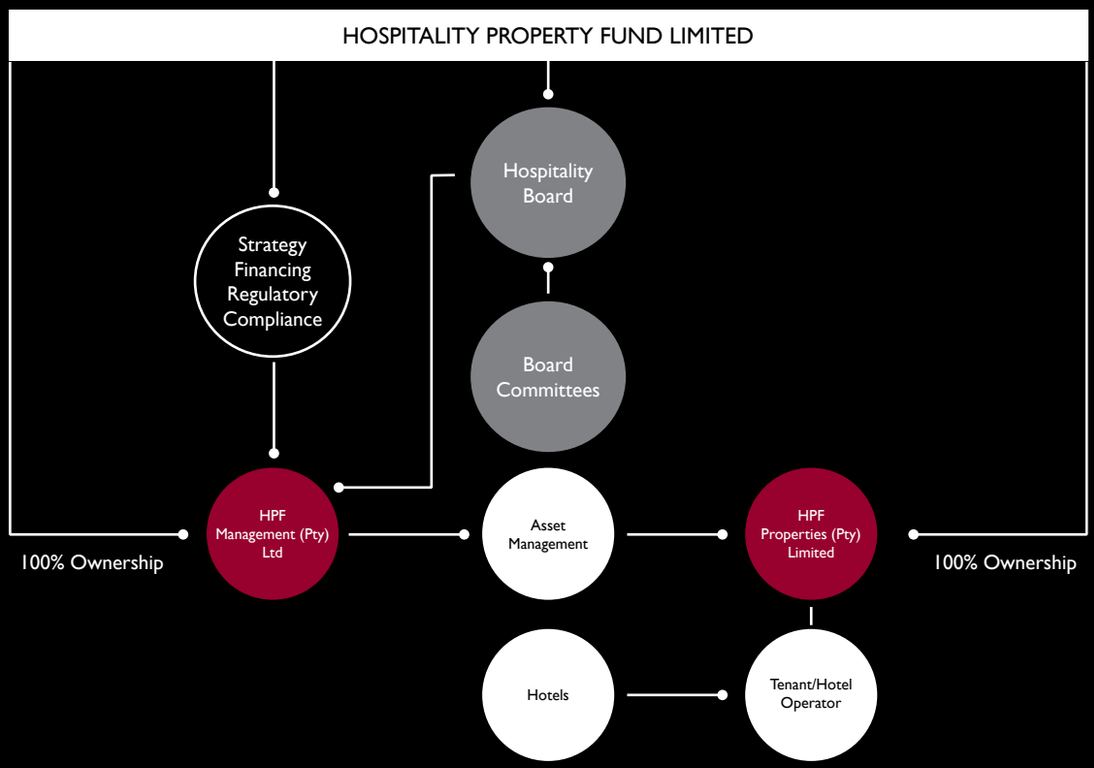
The Fund consists of 26 hotel and resort properties valued at R4,83 billion, located throughout South Africa. It is highly diversified in terms of geographic location, hotel grading, brands and market mix.

The Fund caters to the requirements of a wide-ranging domestic and international target market, including business travel, leisure travel and conferencing markets. Well-located, quality properties with strong brands offering a superior guest experience are the key differentiators, enabling the Fund to generate positive returns for unitholders.

Hospitality is the largest multi-branded hotel owner in South Africa and has built strong partnerships with well-recognised local and international hotel brands. Through these long-term partnerships, the Fund leverages the value of its portfolio. The Fund's profits are distributed as a qualifying rental distribution and free of tax. Linked unitholders are consequently taxed according to their individual tax status.

The Fund comprises a total of 138,1 million A-linked units and 138,1 million B-linked units, which are traded on the JSE under the codes HPA and HPB, respectively. The A-linked units have a preferential claim to earnings with capped growth. The B-linked units receive the balance of the earnings. As at 30 June 2014 the net asset value was R11,40 per linked unit.

Sustainable development is core to the Fund's philosophy of striving towards having a positive impact on all its stakeholders. It continues to proactively implement measures to reduce its environmental impact, focusing on power and water consumption as well as nature conservation.



REIT
Status and capital structure

Hospitality converted from a Property Loan Stock company (PLS) to a Real Estate Investment Trust (REIT) on 1 July 2013 and is the only specialised hotel REIT in South Africa.

REITs are subject to the Companies Act, JSE Regulations and are governed by their own Memorandum of Incorporation. Hospitality's revenue is derived from a combination of fixed rental income and variable rental income from the properties in which the Company invests. The variable income is influenced by the hotel trading profits and is aligned to the performance of the underlying hotel operations. A REIT company can deduct all distributions paid to unitholders as an expense. As a result, if a REIT pays all its distributable earnings to unitholders, it should not have to pay any tax. It becomes a conduit for net property rental income and provides investors an investment alike to direct ownership of the underlying property. This is more aligned with global REIT structures.

Unitholders pay tax on the receipts according to their individual tax status. Distributions are paid as often as quarterly by several REIT companies, and at least twice during each fund's financial year. These regular distributions provide a steady cash stream. A REIT does not pay capital gains tax ("CGT") on the profit on disposal of any property investment and the CGT on the profit on sale of its linked units is accounted for at unitholder level.

REITs provide investors with the opportunity to invest in a diversified portfolio of expertly managed immovable property. The pricing of the securities of listed REITs is determined by market forces and is transparent. When purchasing the securities of a listed REIT through a stockbroker, investors are subject to brokerage as well as other fees. As the prices of the securities of listed REITs are determined by the forces of demand and supply, investors are subject to market risk as well as other risk factors specific to immovable property.

To date, Hospitality's current capital structure comprises linked units which comprise a share and a debenture (or loan). The debenture (loan) portion of the linked unit currently earns interest at a rate of 99.99% of the net income. The terms and conditions of the debentures, including rate of interest payable and repayment dates, are governed by the debenture trust deed and independent trustees are appointed to look after the interests of debenture holders.

In accordance with the JSE Limited Listings Requirements, Hospitality is required to cancel its debentures to retain a share only structure before the deadline of 1 July 2015.

Hospitality is currently finalising the required circulars to implement the conversion of the A- and B- linked units to shares and consulting with its legal advisors, sponsors and the JSE in this regard. The Fund has also engaged Deloitte & Touche Corporate Finance to conduct an indepth evaluation of its capital structure which includes various options to simplify its linked A- and B- unit structure without compromising the rights of its unitholders. Under the current structure, the A-units have a preferential claim on distributions, with growth capped at the lower of CPI (consumer price index) or 5% while the B-units earn the remainder of the distribution. Consequently, investor appetite for the two classes varies according to market conditions. However, the Fund's capital structure requires the issue of linked units in equal numbers, which may impact its ability to raise equity to fund acquisitions.

Strategic objectives

FUND STRATEGY

OBJECTIVE	DELIVERY DURING FINANCIAL YEAR 2014
Optimally grow linked unitholder returns while diversifying and managing risk	Distributable earnings per combined linked unit grew by 14.5% to 174,80 cents in 2014.
Maintaining high standards of corporate citizenship and sustainable development	Continuous improvement in risk management processes implemented by newly created risk manager function.
Diversification of financing structure	Funding structure diversified with Domestic Medium-Term Note Programme.
Sustainable capital structure	Reviewing proposals to restructure equity structure to anchor sustainable growth.
Obtain REIT status	Unique investment proposition as only hotel REIT in South Africa.

PORTFOLIO STRATEGY

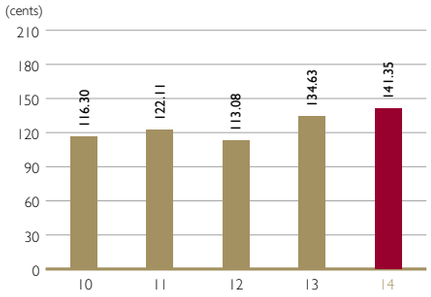
OBJECTIVE	DELIVERY DURING FINANCIAL YEAR 2014
Successfully created critical mass by bulking up the Fund's assets since listing	Total value of portfolio increased from R1,0 billion at listing to current value of R4,8 billion while the number of properties has increased from 16 to 26.
Diversification of hotel management companies	Expanded relationships with international and leading domestic hotel managers including African Hotel and Adventures (100% owned by Tourvest); Rezidor, IHG, Marriott and its various brands.
Focus has shifted to enhancing the quality of property portfolio through:	
• Acquisitions: Large hotel properties in major metropolitan areas with diverse source markets and strong brands	• Continued evaluation of value accretive investment opportunities, including new developments in high-growth nodes, particularly Cape Town foreshore, Sandton and north of Durban.
• Disposals: Non-core properties that do not fit this profile	• Non-core properties with value of R312 million identified for disposal and at various stages of negotiation.
• Continuous investments in existing properties to enhance value proposition of portfolio	• Refurbishment and development projects totalling R780 million completed since 2008.
	• Obtain approval of rezoning application on the Phase 2 land at Arabella Hotel & Spa while engaging with all relevant parties to resolve appeals against the rezoning.

Smart and innovative improvement of our **assets** – *that's our game*

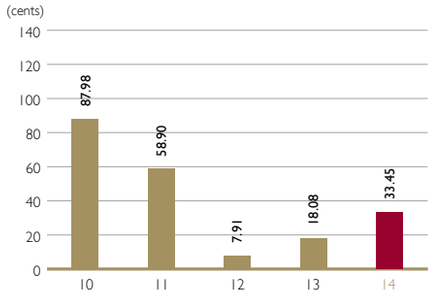
Five-year *overview*

	2010 R'000	2011 R'000	2012 R'000	2013 R'000	2014 R'000
Distribution per A-linked unit (cents)	116.30	122.11	113.08	134.63	**141.35**
Growth in distribution – A-linked unit (%)	5.0	5.0	(7.4)	19.1	**5.0**
Weighted average number of A-linked units (million)	62.47	80.46	90.04	129.27	**137.37**
Distribution per B-linked unit (cents)	87.98	58.90	7.91	18.08	**33.45**
Growth in distribution – B-linked unit (%)	(42.4)	(33.1)	(86.6)	128.6	**85.0**
Weighted average number of B-linked units (million)	62.47	80.46	90.04	129.27	**137.37**
Distribution per combined linked unit (cents)	204.28	181.01	120.99	152.71	**174.80**
Growth in distribution – combined linked unit (%)	(22.4)	(11.4)	(33.2)	26.2	**14.5**
Weighted average number of combined units (million)	124.94	160.92	180.08	258.54	**274.74**
Property value (R million)	3 318	3 956	3 862	4 570	**4 827**
Interest bearing liabilities (R million)	1 308	1 740	1 360	1 573	**1 773**
Gearing to property value (%)	39.4	44.0	35.2	34.4	**36.7**
NAV per unit (cents)					
A-linked unit	1 535	1 271	1 015	1 095	**1 140**
B-linked unit	1 535	1 271	1 015	1 095	**1 140**
Closing market price (cents)					
A–linked unit	1 290	1 441	1 325	1 680	**1 730**
B–linked unit	1 090	750	1 340	520	**520**
(Discount)/premium to NAV (%)					
A–linked unit	(16.0)	13.4	30.5	53.4	**51.8**
B–linked unit	(29.0)	(41.0)	(66.5)	(52.5)	**(54.4)**
Growth/(decline) in unit price (%)					
A–linked unit	17.2	11.7	(8.0)	26.8	**3.0**
B–linked unit	(21.5)	(31.2)	(54.7)	52.9	**0.0**
Total return (%)					
A–linked unit	27.7	21.2	(0.2)	37.0	**11.4**
B–linked unit	(15.2)	(25.8)	(53.6)	58.3	**6.4**
Percentage of gross rental income (%)					
Fixed	44.3	44.0	37.0	35.0	**28.4**
Fixed and variable	50.2	50.0	59.0	60.0	**65.9**
Variable	5.5	6.0	4.0	5.0	**5.7**
Number of properties	24	26	26	27	**26**

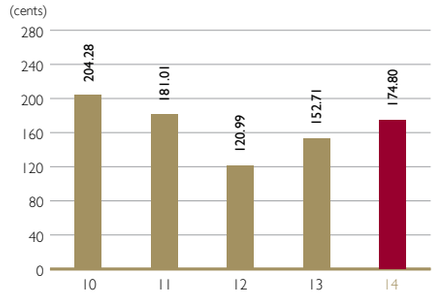
Distribution per A-linked unit



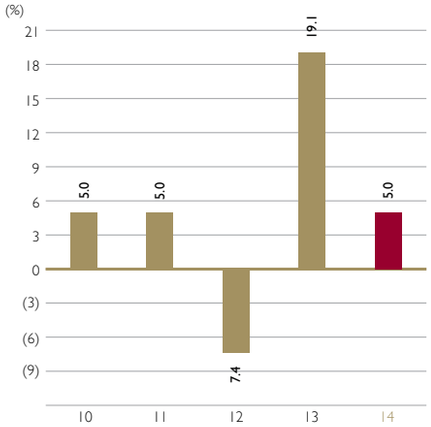
Distribution per B-linked unit



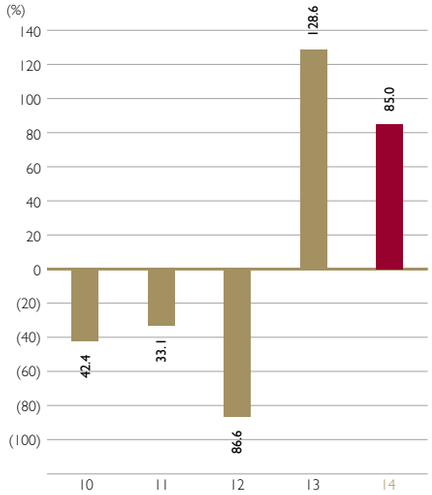
Distribution per combined linked unit



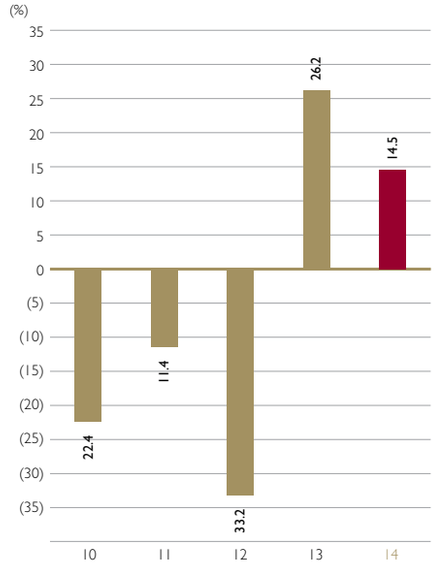
Growth in distribution – A-linked unit



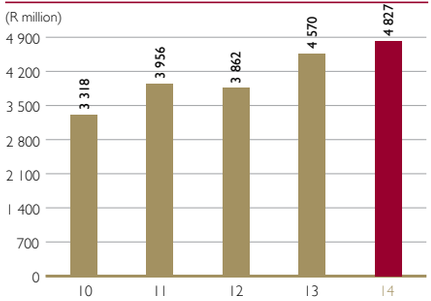
Growth in distribution – B-linked unit



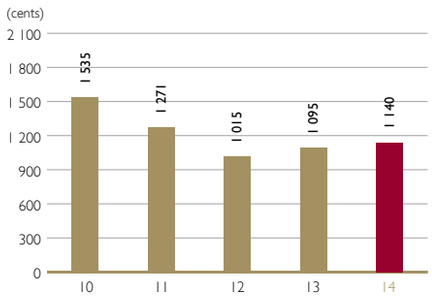
Growth in distribution – combined linked unit



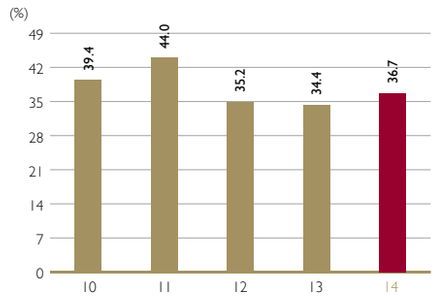
Property value



NAV per unit (excluding deferred tax)



Gearing to property value



The **FULL** *perspective* *drives* of what **value** IN HOTEL PROPERTY

Hospitality is the largest multi-branded hotel owner in South Africa with a portfolio comprising some 4 325 rooms over 26 properties in the economy to luxury segments.

Portfolio OVERVIEW

as at 30 June 2014

Hospitality PROPERTY FUND

100% — HPF PROPERTIES (PTY) LIMITED

100% — HPF MANAGEMENT (PTY) LIMITED
Internalised Manco

1. *Rentals 100% fixed*

2. *Rentals approximately 50% fixed with inflation linked escalations. Approximately 50% variable = 90% to 98% of EBITDA less fixed component. Fixed lease component resets intermittently (2- to 3-year cycles)*

3. *Rentals = EBITDA*

Hospitality % ownership


Birchwood Hotel & OR Tambo Conference Centre*

* *Birchwood converted to a F&V lease agreement from 1 July 2014*


Champagne Sports Resort


Premier Hotel King David


Arabella Hotel & Spa


Crowne Plaza Johannesburg The Rosebank

Holiday Inn Sandton – Rivonia Road


Inn on the Square


Mount Grace Country House & Spa

Kopanong Hotel & Conference Centre


Protea Hotel Edward


Protea Hotel Hazyview


Protea Hotel Hluhluwe & Safaris


Protea Hotel Imperial


Protea Hotel Marine


Protea Hotel Richards Bay


Protea Hotel The Richards


Protea Hotel The Winkler


Protea Hotel Victoria Junction


Radisson Blu Gautrain Sandton


The Bayshore Inn


Westin Cape Town

Radisson Blu Waterfront

Courtyard Arcadia

Courtyard Eastgate

Courtyard Rosebank

Courtyard Sandton

1 FIXED LEASE AGREEMENTS

2 F&V LEASE AGREEMENTS

3 VARIABLE LEASE AGREEMENTS

Property portfolio 30 June 2014

	PROPERTY TITLE	HOSPITALITY OWNERSHIP	PROPERTY LOCATION	GRADING	NO OF ROOMS	BOOK VALUE 30 JUNE 2013 R'000	CAPITALISED COST FOR THE YEAR R'000
Fixed lease							
Birchwood Hotel and Conference Centre	Freehold	Direct (450 owned)	Boksburg	Economy	665	626 000	6 923
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg	Midscale	152	267 000	7 905
Premier King David	Freehold	Direct	East London	Economy	80	34 000	(190)
Total fixed lease					**897**	**927 000**	**14 638**
Variable lease							
Radisson Blu Waterfront	Freehold	Sectional title (39% of rental pool)	Cape Town	Luxury	177	174 000	18 059
Courtyard Arcadia	Freehold	Shareblock (50% ownership)	Pretoria	Midscale	69	26 000	–
Courtyard Eastgate	Freehold	Shareblock (50% ownership)	Bruma Lake	Midscale	69	17 000	–
Courtyard Rosebank	Freehold	Shareblock (32% ownership)	Rosebank	Midscale	83	25 000	–
Courtyard Sandton	Freehold	Shareblock (26% ownership)	Sandton	Midscale	69	18 000	–
Total variable lease					**467**	**260 000**	**18 059**
F & V lease							
Arabella Hotel & Spa	Freehold	Direct	Kleinmond	Luxury	145	111 000	14 836
Crowne Plaza Johannesburg – The Rosebank	Freehold	Direct	Rosebank	Midscale	318	366 000	3 843
Holiday Inn Sandton Rivonia Road	Freehold	Direct	Sandton,	Midscale	301	404 000	9 628
Inn on the Square	Freehold	Direct	Cape Town	Economy	165	106 000	1 111
Kopanong Hotel and Conference Centre	Freehold	Sectional title	Benoni	Economy	201	79 000	3 297
Mount Grace Country House & Spa	Freehold	Direct	Magaliesberg	Luxury	121	244 000	6 621
Protea Hotel Edward	Freehold	Direct	Durban	Midscale	101	115 000	917
Protea Hotel Hazyview	Freehold	Direct	Hazyview	Economy	87	39 000	763
Protea Hotel Hluhluwe & Safaris	Freehold	Direct	Hluhluwe	Economy	77	21 900	4 011
Protea Hotel Imperial	Freehold	Direct	Pietermaritzburg	Economy	70	29 000	789
Protea Hotel Marine	Freehold	Direct	Port Elizabeth	Midscale	114	106 000	1 228
Protea Hotel Richards Bay	Freehold	Direct	Richards Bay	Economy	66	40 000	643
Protea Hotel – The Richards	Freehold	Direct	Richards Bay	Midscale	135	82 000	3 021
Protea Hotel – The Winkler	Freehold	Direct	White River	Economy	87	41 000	1 076
Protea Hotel Victoria Junction	Freehold	Sectional title (94% ownership)	Cape Town	Midscale	172	210 000	1 361
Radisson Blu Gautrain	Freehold	Sectional title	Sandton,	Luxury	216	455 000	7 828
The Bayshore Inn	Freehold	Direct	Richards Bay	Economy	102	27 000	933
Westin Cape Town	Leasehold	Direct	Cape Town	Luxury	483	907 000	9 626
Total F&V lease					**2 961**	**3 382 900**	**71 532**
GRAND TOTAL					**4 325**	**4 569 900**	**104 229**

REVALUATION SURPLUS/ (DEFICIT) R'000	VALUATION 30 JUNE 2014 R'000	DISCOUNT RATE	TERMINAL CAP RATE	DATE OF ACQUISITION	ACQUISITION COST R'000	CAPITALISED COST POST ACQUISITION R'000	TOTAL COST	SURPLUS/ (DEFICIT) ON VALUATION TO COST R'000	% CHANGE
48 077	681 000	14.50%	10.50%	Feb-06	400 859	15 200	416 059	264 941	63.7%
(21 905)	253 000	14.50%	10.50%	Feb-06	148 792	29 039	177 831	75 169	42.3%
1 190	35 000	15.50%	12.50%	Feb-06	52 000	3 482	55 482	(20 482)	(36.9%)
27 362	**969 000**				**601 651**	**47 721**	**649 372**	**319 628**	**49.2%**
42 941	235 000	13.75%	9.00%	Feb-06	145 324	28 827	174 151	60 849	34.9%
(4 000)	22 000	14.50%	10.50%	Feb-06	19 300	1 976	21 276	724	3.4%
(4 000)	13 000	15.00%	11.00%	Feb-06	9 400	–	9 400	3 600	38.3%
1 000	26 000	14.50%	10.50%	Feb-06	12 180	–	12 180	13 820	113.5%
(2 000)	16 000	14.50%	10.50%	Feb-06	8 662	2 077	10 739	5 261	49.0%
33 941	**312 000**				**194 866**	**32 880**	**227 746**	**84 254**	**37.0%**
(10 836)	115 000	14.50%	10.50%	May-11	83 368	21 453	104 821	10 179	9.7%
(32 843)	337 000	14.50%	9.00%	Feb-06	70 000	331 683	401 683	(64 683)	(16.1%)
(35 628)	378 000	14.50%	9.00%	Sep-08	409 247	25 332	434 579	(56 579)	(13.0%)
10 889	118 000	15.00%	11.00%	Feb-06	63 361	46 993	110 354	7 646	6.9%
(297)	82 000	15.00%	11.00%	Feb-06	78 130	5 585	83 715	(1 715)	(2.0%)
(47 621)	203 000	14.50%	10.00%	Feb-06	131 562	165 663	297 225	(94 225)	(31.7%)
1 083	117 000	15.00%	10.75%	Jun-10	110 400	20 343	130 743	(13 743)	(10.5%)
(6 763)	33 000	14.00%	11.00%	Apr-07	41 508	14 121	55 629	(22 629)	(40.7%)
(7 011)	18 900	15.00%	11.50%	Jul-07	28 219	13 313	41 532	(22 632)	(54.5%)
211	30 000	15.00%	11.50%	Mar-07	24 456	21 638	46 094	(16 094)	(34.9%)
(7 228)	100 000	15.00%	10.75%	Feb-06	73 000	43 987	116 987	(16 987)	(14.5%)
(3 643)	37 000	15.00%	11.00%	Feb-06	23 000	11 733	34 733	2 267	6.5%
(17 021)	68 000	15.00%	11.00%	Feb-07	63 137	23 107	86 244	(18 244)	(21.2%)
(1 076)	41 000	15.00%	11.00%	Feb-06	10 000	38 055	48 055	(7 055)	(14.7%)
23 639	235 000	14.50%	10.00%	Feb-07	122 839	47 726	170 565	64 435	37.8%
11 172	474 000	13.75%	9.00%	Apr-13	443 500	7 828	451 328	22 672	5.0%
11 067	39 000	15.00%	11.00%	Feb-07	12 333	26 969	39 302	(302)	(0.8%)
204 374	1 121 000	13.50%	8.75%	May-11	648 895	25 876	674 771	446 229	66.1%
92 468	**3 546 900**				**2 436 955**	**891 405**	**3 328 360**	**218 540**	**6.6%**
153 771	**4 827 900**				**3 233 472**	**972 006**	**4 205 478**	**622 422**	**14.8%**

Value drivers

The value drivers in a hotel property form the basis for Hospitality's vision, strategy and choice of investment. It is essential that each component is understood as it is a prerequisite for success.

Nº1 MACRO–ECONOMY

Although Hospitality invests solely in South Africa, it is vital to monitor not only the local macro-economic factors but to also analyse the global and regional economic activity in order to identify trends early on. This not only guides the decisions in future investments but also in the sales and marketing focus and in adapting operationally.

Nº2 HOTEL ECONOMIC CYCLE

The hotel economic cycle is generally closely tied to the macro-economic phases moving through either the expansionary phase, the contractionary phase or the switchover phase. Understanding each phase of the hotel economic cycle and the business impact thereof is vital to limiting risk exposure in the respective markets.

Nº3 LOCATION

The key to sustainable property investment remains: "Location, Location, Location!"

Visibility, accessibility and proximity to major business hubs or points of leisure interest are important demand drivers.

Nº4 COMPETITION – CURRENT/NEW SUPPLY

Knowledge of the competitive landscape and the dynamics of each market is essential to ensure sustainable profitability.

Nº5 BRAND AFFILIATION

A strong, local or international brand underpins the hotel's competitiveness within its chosen product segment.

Nº6 OPERATIONS AND MANAGEMENT

Hotel operations require specialist expertise and are highly management and labour intensive. Leadership and involvement in all layers of the business lead to customer and employee satisfaction essentially resulting in sustainable profitability.

Nº7 DEVELOPMENTS AND INVESTMENTS

A constant focus on improvement and development for each hotel is necessary in order to maintain a strong market position.

Nº8 ASSET MANAGEMENT

Asset management in the hotel industry requires both an indepth understanding of hotel operations and asset management in order to secure sustainable shareholder returns.

Nº9 LEASE STRUCTURE

Fixed or variable lease structures or a combination of the two are available in the hotel industry.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Productivity

Essential to value growth

KEY HOTEL PROFIT DRIVERS

The management of a hotel property is a complex undertaking. A hotel is made up of several business units with the core unit being the rooms department and auxiliary units composing of food and beverage outlets, banqueting, safari, spa, and/or golf. The configuration of business units within a particular hotel is selected after careful consideration of each component of the hotel business model. A successful property needs the right combination providing the ideal product offering that meets the needs of the target market as later changes may be costly.

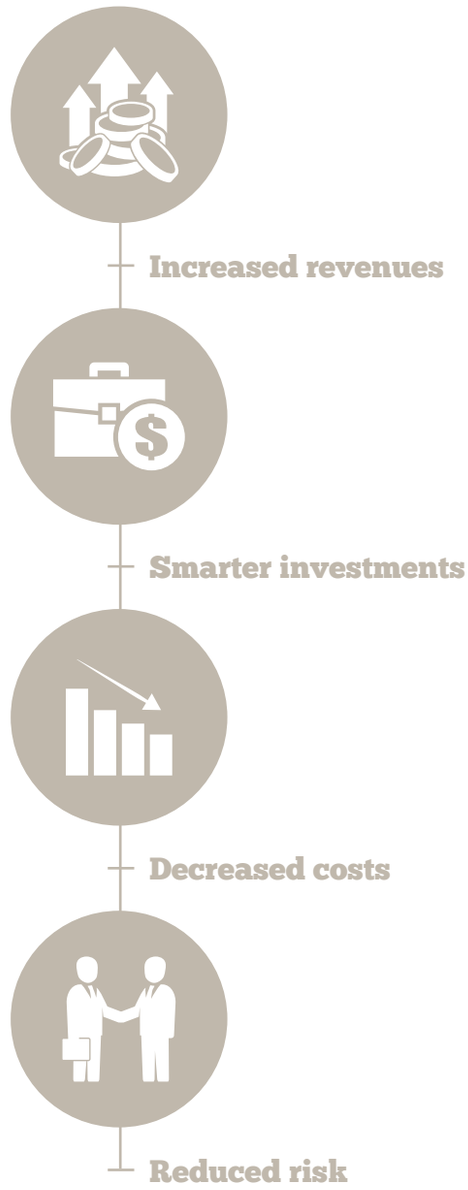
In traditional hotel properties, the rooms department is the largest contributor to gross revenue with the food and beverage department being the second largest. The majority of auxiliary unit revenue is typically driven by the number of room nights sold assuming that guests staying at the hotel will spend on food and beverage or other offerings. Exceptions to the rule exist; a non-traditional hotel property such as the Birchwood Hotel & OR Tambo Conference Centre can generate up to 64% of gross revenue through the food and beverage department since its business model is targeted at providing large scale conferencing with rooms as an 'auxiliary offering'.

The makeup of rooms revenue contains multi-faceted layers of business, conference and leisure sales. Every day is vital in achieving budgeted RevPAR. It requires that the respective management team has an in-depth understanding of the hotel's market dynamics and is quick in responding to changes. Similar to the airline industry, a hotel applies yield management to realise the maximum in revenues while providing the desired product to the right customer.

In simplified terms, a hotel manager has three tools with which to increase hotel profits: increase occupancy, increase average daily rate (ADR) or increase profitability through cost reduction. Each of these tools requires a distinct approach and varies in its impact on the overall business.

In a case study each of the three tools has been applied independently to an average sized hotel property within the Fund's portfolio. The outcome of each scenario is presented in the example below. The base case assumes a 350 room hotel with an ADR of R1 000 and an occupancy of 66.7% resulting in RevPAR of R667 for the year. Base case EBITDA amounts to R31,7 million.

VALUE DRIVERS



PATHS TO PROFIT GROWTH

	BASE CASE
Number of rooms	350
Occupancy	66.7%
ADR	R1 000
RevPAR	R667
Total revenue	Rm120,0
MCP	Rm41,3
EBITDA	Rm31,7

	5% GROWTH IN OCCUPANCY	GROWTH	VARIANCE
Number of rooms	350		
Occupancy	**70.0%**	**5.0%**	
ADR	R1 000	0.0%	
RevPAR	R700	5.0%	
Total revenue	Rm124,2	3.5%	Rm4,3
MCP	Rm44,4	7.7%	Rm3,3
EBITDA	Rm34,4	8.9%	**Rm2,8**
Conversion	66.5%		

	5% GROWTH IN ADR	GROWTH	VARIANCE
Number of rooms	350		
Occupancy	66.7%	0.0%	
ADR	**R1 050**	**5.0%**	
RevPAR	R700	5.0%	
Total revenue	Rm124,3	3.5%	Rm4,3
MCP	Rm45,1	9.2%	Rm3,7
EBITDA	Rm35,1	10.8%	**Rm3,4**
Conversion	80.2%		

	5% GROWTH IN PROFITABILITY	GROWTH	VARIANCE
Number of rooms	350		
Occupancy	66.7%	0.0%	
ADR	1 000	0.0%	
RevPAR	667	0.0%	
Total revenue	Rm120,0	0.0%	
MCP	**Rm43,3**	**5.0%**	**Rm2,1**
EBITDA	Rm33,6	6.0%	**Rm1,9**
Conversion	92.0%		

GROWTH IN OCCUPANCY BY 5%

A 5% growth in occupancy results in an increase of R4,3 million in Total Revenue while EBITDA increases by R2,8 million. As occupancy increases so do variable expenses such as guest supplies, cleaning materials, casual staff and electricity resulting in a conversion of additional revenue into EBITDA of 66.5%.

GROWTH IN ADR BY 5%

A 5% growth in ADR also results in an increase of R4,3 million in Total Revenue, however, EBITDA increases by R3,4 million (80.2% conversion). An increase in ADR does influence variable expenses but not to the same extent as an increase in occupancy. Management fees and marketing fees increase in line with the respective percentage as per the management agreement.

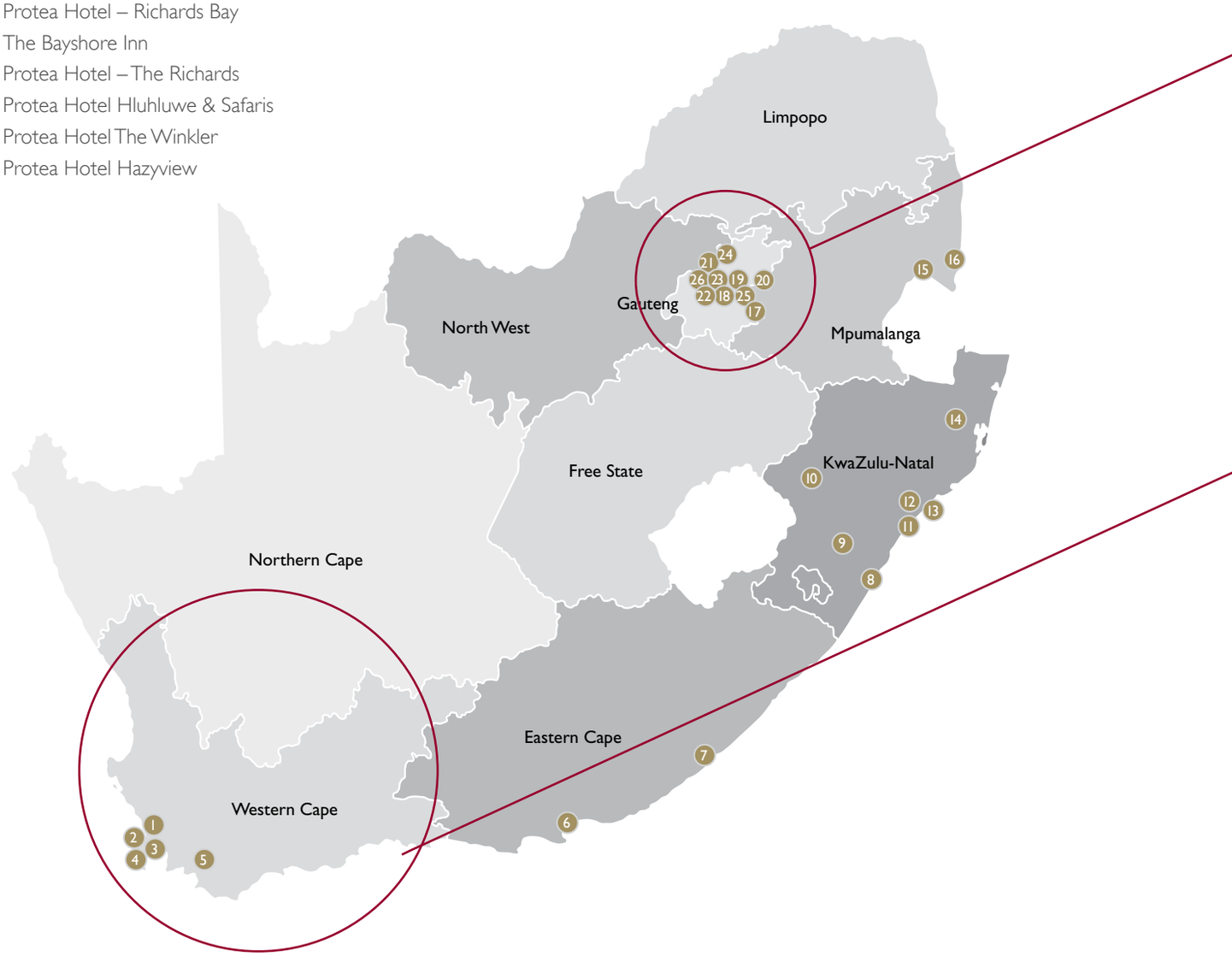
GROWTH IN PROFITABILITY BY 5%

A 5% growth in profitability (increase in MCP) does not require any additional revenue to be generated. It results in an increase of EBITDA by R1,9 million. Improving profit margins should always be a focus. It can be a very effective tool especially in economic downturns as it carries little risk and can be fully controlled by management unlike an increase in occupancy and ADR which depends on customer choice. Management needs to be mindful nevertheless that costs are not cut to the detriment of the customer experience as this may have a negative impact on occupancy and ADR.

GLOSSARY
MCP – Management controllable profit
ADR – Average daily rate
RevPAR – Revenue per available room
EBITDA – Earnings before interest, tax, depreciation and amortisation

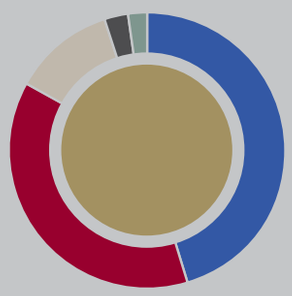
GEOGRAPHICAL *Map*

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



Property value by locality

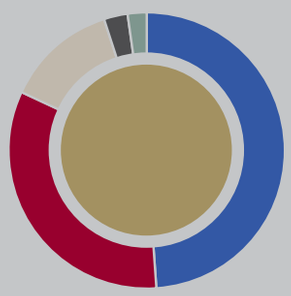
(%)



Gauteng	45
Western Cape	38
KwaZulu-Natal	12
Eastern Cape	3
Mpumalanga	2

Gross rental income by locality

(%)



Gauteng	49
Western Cape	33
KwaZulu-Natal	13
Eastern Cape	3
Mpumalanga	2

African Hotels & Adventures ("AHA")

AHA, 100% owned by Tourvest, manages and operates 27 hotels and lodges in South Africa, Zimbabwe, Botswana and Kenya. It drives business into its hotels and lodges through its dedicated sales, marketing and reservations team. Tourvest also owns a number of inbound operators and Travel Services companies, which are incentivised to drive business into AHA owned lodges and hotels.

AHA is the tenant and hotel management company at Kopanong Hotel and Conference Centre.

AFRICAN HOTELS & ADVENTURES	TOWN	NUMBER OF ROOMS
Kopanong Hotel & Conference Centre	Benoni	201

Birchwood Hotel Management Company

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

BIRCHWOOD HOTEL MANAGEMENT COMPANY	TOWN	NUMBER OF ROOMS
Birchwood Hotel & OR Tambo Conference Centre	Boksburg	665 (450 owned by Hospitality)

Awards in 2014:
Heritage Environmental Rating Programme: Gold Classification

Carlson Rezidor Hotel Group

The Rezidor Hotel Group is a member of the Carlson Rezidor Hotel Group. Rezidor features more than 400 hotels with 95 000 rooms in 70 countries across Europe, the Middle East and Africa. It offers a range of hospitality, with price levels and target markets ranging from family value and high-class comfort to high-end luxury.

The group's core brands are Quorvus Collection in the luxury segment, Radisson Blu in the upper luxury segment, the new Radisson Red which is launching worldwide in 2015 to service the luxury segment and Park Inn by Radisson covering the mid-market segment. Rezidor operates the Radisson Blu Waterfront and Radisson Blu Gautrain hotels for the Fund.

REZIDOR HOTEL GROUP	TOWN	NUMBER OF ROOMS
Radisson Blu Gautrain	Sandton	216
Radisson Blu Waterfront	Cape Town	177 (39.1% of rental pool owned by HPF)
Total		**393**

Management & administration

Champagne Sports Resort

The tenant and management company of Champagne Sports Resort has been involved with the development and operations of the resort since inception. The management company also manages the timeshare component of the resort on behalf of the Champagne Shareblock company.

CHAMPAGNE SPORTS RESORT MANAGEMENT	TOWN	NUMBER OF ROOMS
Champagne Sports Resort	Central Berg	152

City Lodge Hotel Group

The JSE-listed City Lodge Hotels Limited (City Lodge) is one of South Africa's leading hotel groups, with 55 hotels in Southern and Eastern Africa under management, predominantly in the limited service segment. The group's hotel brands include: Courtyard, City Lodge, Town Lodge and Road Lodge. Hospitality co-owns four Courtyard properties with City Lodge. The Courtyards in Arcadia and Eastgate are jointly owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

CITY LODGE HOTELS LIMITED	TOWN	NUMBER OF ROOMS
Courtyard Arcadia	Pretoria	69 (50% owned by Hospitality)
Courtyard Eastgate	Bruma Lake	69 (50% owned by Hospitality)
Courtyard Rosebank	Rosebank	83 (32% owned by Hospitality)
Courtyard Sandton	Sandton	69 (26% owned by Hospitality)
Total		**290**

Extrabold Hotel Management

Extrabold is an independent hotel management company, which was established upon the listing of Hospitality to manage The Rosebank Hotel as the Fund embarked on a substantial repositioning of this property. Hospitality subsequently appointed Extrabold to manage a number of its other hotels.

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

EXTRABOLD HOTEL MANAGEMENT	TOWN	NUMBER OF ROOMS
Crowne Plaza Johannesburg – The Rosebank	Rosebank	318
Holiday Inn Sandton – Rivonia Road	Sandton	301
Protea Hotel Hazyview	Hazyview	87
Protea Hotel Hluhluwe & Safaris	Hluhluwe	77
Protea Hotel Imperial	Pietermaritzburg	70
Protea Hotel – The Richards	Richards Bay	135
Protea Hotel – The Winkler	White River	87
The Bayshore Inn	Richards Bay	102
Total		**1 177**

Premier Hotels & Resorts

The Premier Hotel King David in East London is leased and managed by Premier Hotels & Resorts, which manages twelve hotels in South Africa, the majority of which are situated in the Eastern Cape. Premier Hotels & Resorts has over 20 years experience in developing and managing hotels, conference centres, boutique concept hotels and restaurants. It aims to expand nationally into hotel property development and management to provide operational expertise to steer hospitality ventures, and to develop partnerships that enable consumers to experience superior guest services.

PREMIER HOTELS & RESORTS	TOWN	NUMBER OF ROOMS
Premier Hotel King David	East London	80

Protea Hospitality Group

Protea Hotels, founded in 1984, is the largest hotel group in Africa with more than 125 fine hospitality establishments in 10 countries on the African continent. The group comprises two brands, namely the Protea Hotels brand (including the lifestyle brand Protea Hotel Fire & Ice!) and the luxury African Pride Hotels, Lodges and Country Houses brand. Protea Hotels was awarded "Coolest Hotel Brand" for 2013 and is a three-time winner of the "Top Hotel Brand Award". In April 2014, Protea Hotels sold its hotel marketing, management and franchise business to Marriott International. Marriott International, Inc (NASDAQ: MAR) is a leading lodging company based in the USA, with over 4 000 properties in 80 countries and territories. The company operates and franchises hotels and licenses vacation ownership resorts under 18 brands globally.

Protea Hospitality Group operates the Arabella Hotel and Spa and Mount Grace Country House and Spa under the African Pride Hotels brand. Protea Hotel Marine in Port Elizabeth, Protea Hotel Richards Bay, Protea Hotel Edward and Protea Hotel Victoria Junction are managed under the Protea Hotels brand for Hospitality.

PROTEA HOSPITALITY GROUP	TOWN	NUMBER OF ROOMS
Arabella Hotel & Spa	Kleinmond	145
Mount Grace Country House and Spa	Magaliesberg	121
Protea Hotel Edward	Durban	101
Protea Hotel Marine	Port Elizabeth	114
Protea Hotel Richards Bay	Richards Bay	66
Protea Hotel Victoria Junction	Cape Town	172 (94% owned by Hospitality)
Total		**719**

Awards in 2014:
Mount Grace Country House & Spa: World Luxury Spa Awards: 2014 Finalist
TripAdvisor: Certificate of Excellence

Starwood Hotels and Resorts

Starwood Hotels and Resorts Worldwide, Inc. is one of the leading hotel and leisure companies in the world with 1 162 properties in nearly 100 countries and 171 000 employees at its owned and managed properties. Starwood is a fully integrated owner, operator and franchisor of hotels, resorts and residences with the following internationally renowned brands: St. Regis®, The Luxury Collection®, W®, Westin®, Le Méridien®, Sheraton®, Four Points® by Sheraton, Aloft®, and Element®. The company boasts one of the industry's leading loyalty programmes, Starwood Preferred Guest (SPG), allowing members to earn and redeem points for room stays, room upgrades and flights, with no blackout dates. Starwood also owns Starwood Vacation Ownership, Inc., a premier provider of world- class vacation experiences through villa-style resorts and privileged access to Starwood brands.

Starwood manages and markets the Westin Cape Town for Hospitality.

STARWOOD HOTELS AND RESORTS	TOWN	NUMBER OF ROOMS
Westin Cape Town	Cape Town	483

Awards in 2014
Westin Cape Town: Best Luxury Spa Winner in 2014
Westin Cape Town: TripAdvisor 2014 "Certificate of Excellence" based on consistently outstanding feedback from TripAdvisor travellers.

Three Cities Group

The Three Cities Group manages and markets over 32 tourism and leisure properties in Southern Africa encompassing City Hotels, Resorts and Exceptional Safaris. Three Cities is also the leader of private tertiary training and education for the hospitality industry in South Africa, with the International Hotel School being the largest private hospitality training provider with campuses in Cape Town, Durban and Sandton.

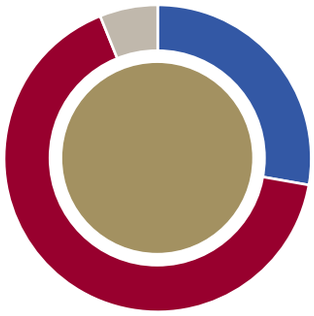
Three Cities manages the Inn on the Square for Hospitality.

THREE CITIES GROUP	TOWN	NUMBER OF ROOMS
Inn on the Square	Cape Town	165

Sectoral spread

Gross rental income by lease type

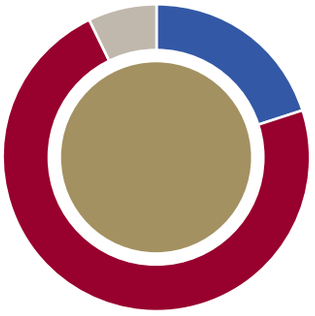
(%)



Fixed	28
F&V	66
Variable	6

Property value by lease type

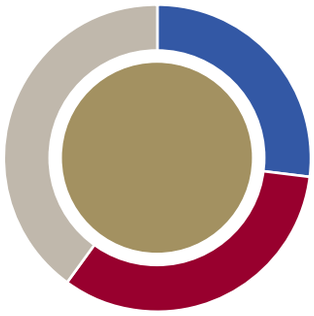
(%)



Fixed	20
F&V	73
Variable	7

Gross rental income by grading

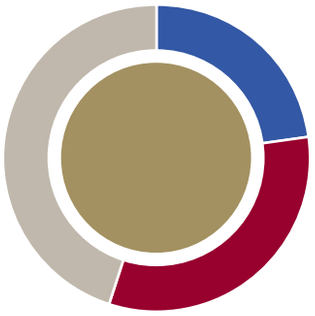
(%)



Economy	27
Midscale	33
Luxury	40

Property value by grading

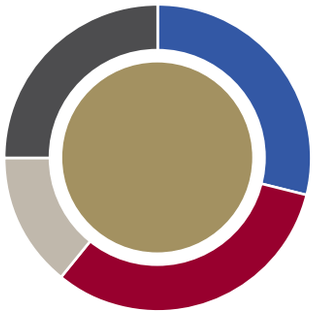
(%)



Economy	23
Midscale	32
Luxury	45

Gross rental income by lease expiry period

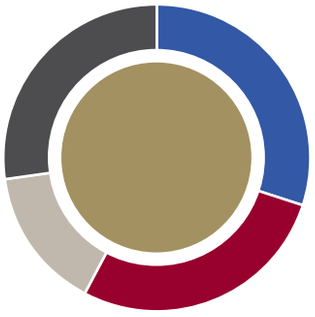
(%)



1-5 years	29
6-10 years	32
11-20 years	14
21-30 years	25

Property value by lease expiry period

(%)



1-5 years	30
6-10 years	28
11-20 years	15
21-30 years	27

Consolidated hotel income statement for F&V and variable leased properties

FOR THE YEAR 30 JUNE	2010 R 000	%	2011 R 000	%	2012 R 000	%	2013 R 000	%	2014 R 000	%
Revenue	**477 348**	**100**	**561 726**	**100**	**862 264**	**100**	**948 497**	**100**	**1 179 005**	**100**
Rooms	312 922	66	342 055	61	541 909	63	606 867	64	765 235	66
Food and beverage	126 575	27	152 796	27	248 488	29	270 937	29	334 500	28
Spa and beauty salon	8 206	2	9 482	2	17 899	2	15 318	2	16 228	1
Golf and safari	2 364	0	3 063	1	14 559	2	13 287	1	16 163	1
Other	27 280	6	54 331	10	39 408	5	42 088	4	46 879	4
Departmental profit (% Dept revenue)	**302 564**	**63**	**348 422**	**62%**	**530 269**	**61**	**583 332**	**62**	**734 054**	**62**
Rooms	246 204	79	260 362	76	415 560	77	466 279	77	595 233	78
Food and Beverage	32 445	26	40 206	26	82 325	33	90 325	33	110 576	33
Spa and Beauty Salon	3 168	1	3 233	1	5 139	1	5 049	1	5 188	1
Golf and Safari	567	0	261	0	3 484	1	3 205	1	3 468	0
Other	20 180	7	44 361	13	23 761	4	18 473	3	19 589	3
Other hotel expenses	**123 711**	**26**	**155 202**	**28**	**233 524**	**27**	**253 155**	**27**	**312 740**	**27**
Administration and general	51 136	11	64 982	12	96 794	11	108 112	11	123 893	11
Sales and marketing	35 684	7	40 158	7	60 831	7	65 097	7	85 361	7
Heat, light and power	15 780	3	22 079	4	37 788	4	40 452	4	51 881	4
Repairs and maintenance	21 112	4	27 984	5	38 111	4	39 495	4	51 605	4
Management controllable profit	**178 853**	**37**	**193 220**	**34**	**296 744**	**34**	**330 177**	**35**	**421 314**	**36**
Fixed expenses	19 715	4	34 550	6	45 574	5	47 211	5	48 401	4
Management and incentive fees	22 597	5	25 522	5	44 030	5	49 496	5	59 538	5
EBITDA	**136 541**	**29**	**133 147**	**24**	**207 140**	**24**	**233 470**	**25**	**313 375**	**27**
Fixed rental	83 960	18	104 185	19	92 772	11	99 677	11	139 836	12
Variable rental	50 162	11	50 109	9	113 112	13	131 904	14	165 336	14
F&V/Variable lease income	**134 121**	**28**	**154 294**	**27**	**205 884**	**24**	**231 580**	**24**	**305 172**	**26**
Rental income reconciliation										
F&V/Variable lease income	134 121	50	154 294	56	205 884	63	231 580	65	305 186	72
Fixed lease rental income	131 781	50	122 749	44	120 797	37	124 756	35	121 090	28
Total rental income	**265 902**	**100**	**277 043**	**100**	**326 681**	**100**	**356 337**	**100**	**426 276**	**100**
Statistics										
Number of properties	24		26		26		27		26	

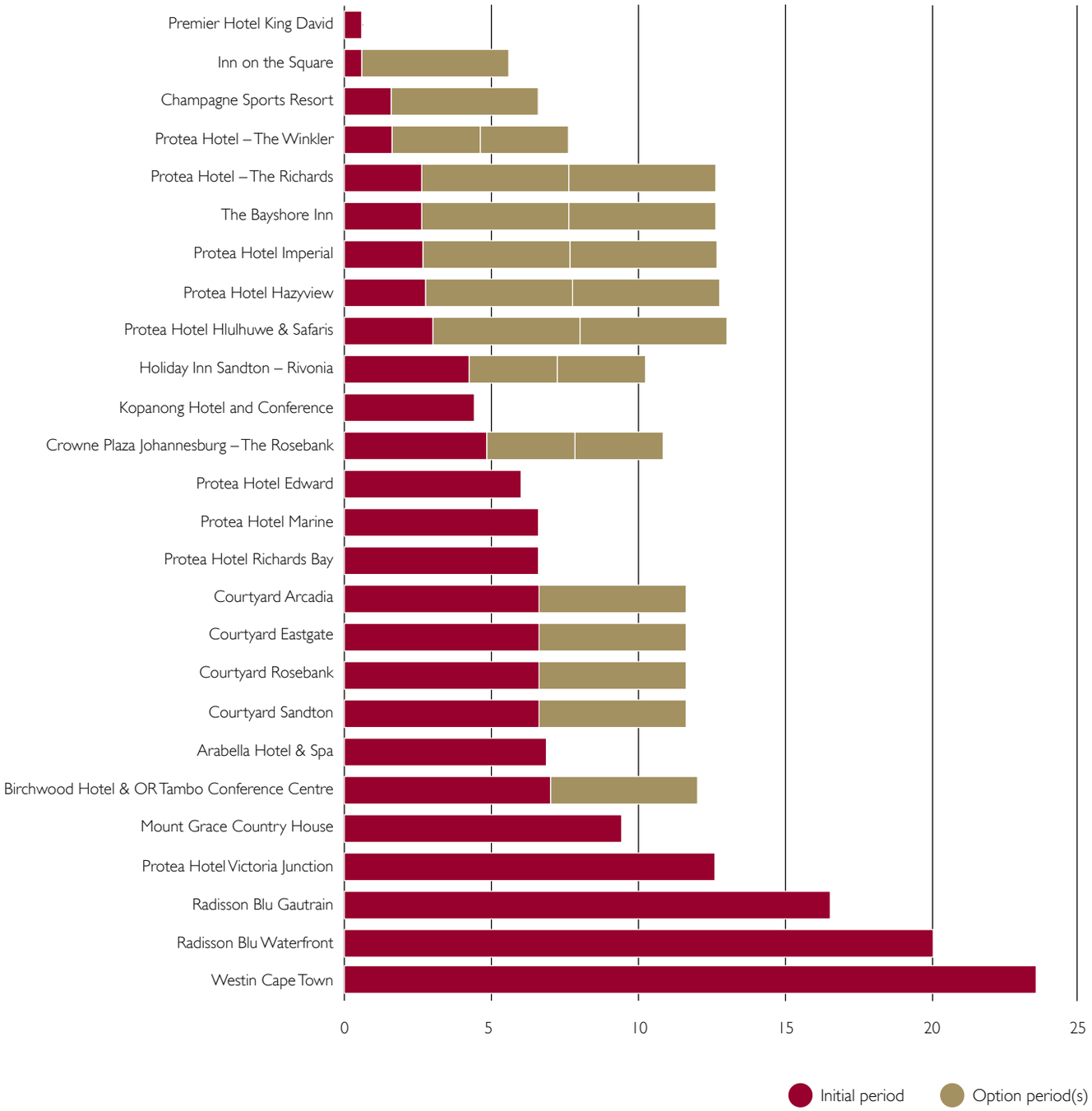
Occupancy, ADR and RevPAR analysis

OCCUPANCY	FY 2010 (%)	FY 2011 (%)	FY 2012 (%)	FY 2013 (%)	FY 2014 (%)
Variable	60	53	50	56	61
F&V	52	51	59	61	62
Fixed	55	45	44	45	48
Total for variable properties	**53**	**51**	**57**	**60**	**61**
Total all properties	**54**	**50**	**54**	**56**	**60**
Economy	50	45	46	48	55
Midscale	57	52	58	59	59
Luxury	57	59	61	64	66

ADR	FY 2010 (R)	FY 2011 (R)	FY 2012 (R)	FY 2013 (R)	FY 2014 (R)
Variable	1 261	1 253	1 275	1 319	1 488
F&V	840	816	918	962	1 101
Fixed	820	726	703	740	1 095
Total for variable properties	**947**	**913**	**974**	**1 020**	**1 162**
Total all properties	**911**	**860**	**912**	**960**	**1 159**
Economy	688	623	593	619	646
Midscale	913	875	856	906	975
Luxury	1 861	1 561	1 424	1 482	1 670

RevPAR	FY 2010 (R)	FY 2011 (R)	FY 2012 (R)	FY 2013 (R)	FY 2014 (R)
Variable	755	665	637	742	901
F&V	433	416	543	586	678
Fixed	449	330	313	330	525
Total for variable properties	**506**	**470**	**560**	**613**	**714**
Total all properties	**490**	**426**	**492**	**536**	**701**
Economy	345	280	272	297	356
Midscale	517	455	494	536	576
Luxury	1 060	918	872	948	1 103

Lease expiry profile (years)



Hospitality's strategic objectives are to optimally **GROW** linked unitholder returns while **diversifying** and **managing risk** and at the same time maintaining **high standards** of corporate citizenship and sustainable development

Board of *directors*

No1

Don Bowden (55) Chairman
BCom (Economics), BAcc (Wits), CA(SA)

Don was appointed to the board in August 2012. He is a non-executive director of Tier 1 Investor Relations, Foord Unit Trusts and The Fruitways Group and Molteno Brothers and a trustee of Molteno Brothers Trust, a charitable trust. Don was a financial services partner at Deloitte & Touche before joining BoE in 1998. At BoE he managed the investor relations, communications, and marketing and human resources portfolios for the banking group. Following the merger of BoE with Nedcor in 2002, Don assumed responsibility for communications and human resources on the Nedcor integration and restructuring team, before starting Tier 1 Investor Relations in 2003. Don was appointed as chairman of the board on 30 June 2013. He is a member of the remuneration committee and chairman of the nomination committee.

No2

Andrew Rogers (45) Chief Executive Officer
NDip – Hotel Management (Cape Town Technikon)

Andrew joined Hospitality in January 2007 as chief operating officer and became deputy chief executive officer in February 2009. He was appointed as the chief executive officer of Hospitality on 30 June 2013 and is a member of the investment committee. Prior to joining Hospitality, he was a director of operations with Southern Sun Hotels. During his career Andrew has been with the City Lodge Group and Cullinan Hotel Group. Andrew has more than 21 years' operational hospitality and tourism experience.

No3

Ridwaan Asmal (42) Financial Director
BCom (Accounting) (Wits)

Ridwaan is the financial director of Hospitality and a member of the social and ethics committee. He was employed at Freestone Property Holdings, Broll Property Group and Anglo American Property Services prior to joining Hospitality in 2006. He has some 20 years' experience in the listed property fund environment with specific skills in financial reporting and management as well as acquisitions and disposals.

No4

Kamil Abdul Karrim (55) Independent Non-Executive
BCompt, PDM-PPDA (Wits), MBA (Bond University)

Kamil was appointed to Hospitality's board prior to the listing of the Fund in 2006. He is a member of both the investment and audit and risk committees. Kamil is currently the managing director of Pam Golding Tourism and Hospitality Consulting (Pty) Limited.

No5

Linda de Beer (45) Independent Non-Executive
CA(SA), Masters (Taxation)

Linda is an independent director, reporting and governance advisor and adjunct professor on a part time basis, at Wits University. She is also a director on the boards of Royal Bafokeng Platinum Ltd, Sasfin Bank Ltd and Sasfin Holdings Ltd. She, inter alia, serves on the King Commitee on Corporate Governance and chairs the JSE's Financial Reporting Investigation Panel. Linda was appointed a director of Hospitality on 17 August 2011. She is the chairman of the audit and risk committee and a member of the nomination committee.

No6

Zuko Kubukeli (41) 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 the listed PLS, Atlas Properties Limited, prior to which he was an executive director of Brait Specialised Funds. Zuko is the executive director – strategy and acquisitions, of Pan-African Capital Holdings (Pty) Limited and a principal and CEO of Pan-African Private Equity Fund One and Two. He was appointed to the board of Hospitality in June 2008. He chairs the social and ethics committee and serves on the investment and nomination committees.

Nº7

Gerald Nelson (59) Non-Executive
BSc Building (Wits)

Gerald stepped down as the chief executive officer of Hospitality on 30 June 2013, but remains on the board as a non-executive director. He was first appointed to the board prior to the listing of the Fund in 2006. He conceptualised and was actively involved with the set-up of the Fund. Prior to 2006, Gerald was the managing director of Sycom Property Fund Managers Limited and a past chairman of the Association of Property Unit Trusts. He has more than 35 years' experience in activities related to property with specific expertise in development, asset management as well as listed and directly held investment property vehicles, with a specific focus on the hotel and leisure industry for the past eight years. Gerald is a member of the investment, nomination and remuneration committees. He is currently involved in various local and offshore property development and investment activities

Nº8

Willy Ross (69) Independent Non-Executive
CTA, CA(SA)

Willy was appointed as an independent non-executive director in April 2007. He chairs both the remuneration and investment committees. Willy has more than 32 years' merchant and investment banking experience 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 his retirement Willy has for the past 10 years served as Chairman or director on the boards of a number of listed and unlisted companies including Kagiso Media Limited, Vunani Limited and Capital Property Fund (Chairman).

Nº9

Anitha Soni (55) Independent Non-Executive
NDip (Hotel Management) (Durban Institute of Technology), Executive Leadership (Arthur D Little, USA), Industrial Relations (Cornell University, USA)

Anitha was the Chairman of Brand South Africa. She served on a number of Tourism Boards and has assisted in the redirection of the national tourism strategy within the context of post-apartheid South Africa – including SA Tourism, Tourism KwaZulu-Natal, Tourism Durban, BrandSA, and the Hospitality Tourism Training Board, now CATSSETA. She is currently involved in development consulting and the promotion of business linkages between Africa and Trade and Investment countries within the African continent and the BRICS member countries. Anitha joined the board of Hospitality on 30 June 2013 and is a member of the social and ethics committee.

Nº10

Syd Halliday (67) Independent Non-Executive
CAIB (SA), ACIS

Syd retired from Nedbank in 2004 where he had held various senior credit risk management positions in the property finance departments of Nefic, Syfrets, Nedcor Investment Bank and Nedbank. He served as the Independent Chairman of Nedbank Corporate Property Finance's main property lending committee up to December 2012. He has over 30 years' experience as a lending banker. Syd joined the board of Hospitality on 30 June 2013 and is a member of the investment and audit and risk committees. He also serves on the board of Dipula Income Fund Limited as an independent non-executive director and as a trustee of National Empowerment Investment Trust.

Nº11

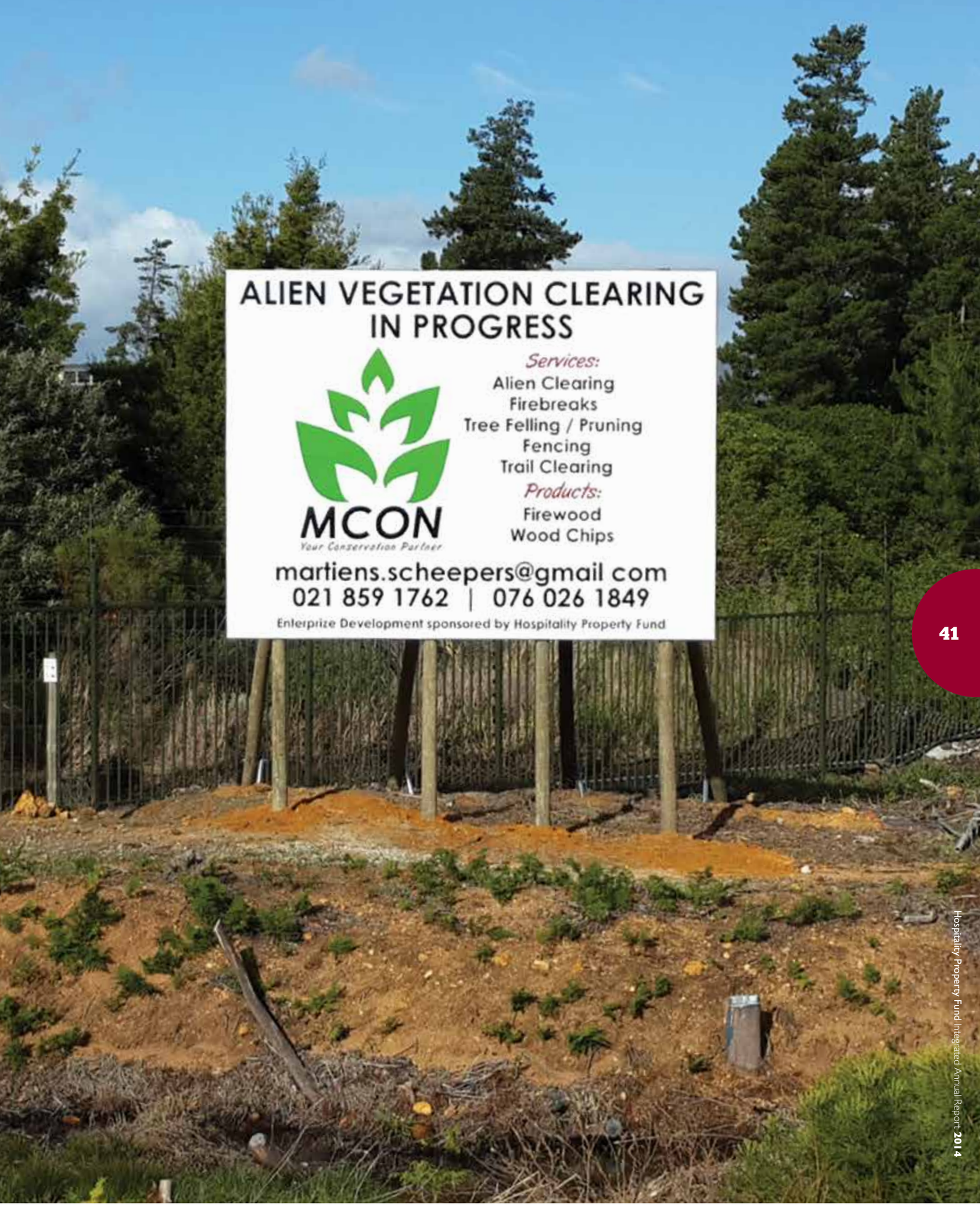
Zola Ntwasa (36) Independent Non-Executive
CA(SA), BCom (Accounting)

Zola qualified as a Chartered Accountant (SA) in 2003 after having completing a Post-graduate Diploma in Accounting at the University of Natal (Durban) and a Bachelor of Commerce degree at the University of Cape Town. She is an executive director of Jade Capital Partners. Zola was previously a director of Standard Bank Group Limited's Real Estate Finance division, heading up its New Business team and an investment banker, having held roles in Standard Bank's BEE Finance division and in Corporate Finance at Investec Bank Limited. She is currently the chair of the Women's Property Network (Gauteng) and a member of SAPOA, AWCA and ABASA. She was appointed to the board of Hospitality as an independent non-executive director on 8 July 2013 and serves as a member of the audit and risk committee.

Hospitality

investing in the growth & sustainability of its service providers and the community

Refer to page 86 for full detail


ALIEN VEGETATION CLEARING
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MCON
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Services:
Alien Clearing
Firebreaks
Tree Felling / Pruning
Fencing
Trail Clearing
Products:
Firewood
Wood Chips
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021 859 1762 | 076 026 1849
Enterprize Development sponsored by Hospitality Property Fund

Business overview

GLOBAL ECONOMY AND HOSPITALITY SECTOR

The past year has seen global economic growth strengthen to 3.2% against a comparative 2.8% for the year before. This growth and recovery was driven primarily by developed countries, whose economies were strongly supported by government lead interventions.

The direct contribution of travel and tourism to the global economy in 2013 grew 3.1%, to a total value of US$2.2 trillion, employing 101 million people worldwide. Business travel and tourism spending growth decelerated to 3.0% in 2013, while leisure spending growth was up at 3.3%. The performance of the hotel sector in most regions was driven by higher demand and rates. International air passenger demand trended up for the fourth consecutive year, with the pace of growth accelerating in the latter part of the year. As a result, the airline industry is adding seat capacity in all regions, another optimistic market indicator for pricing.

South East Asia enjoyed the highest global tourism and travel growth, measured at 7.9% for the year. North Africa declined 5.8%, due largely to political instability in Egypt. Tourism in the Middle East has been affected by the Syrian conflict and a spill-over to neighbouring countries. However, both the UAE and Saudi Arabia continue to attract larger numbers of tourists. Within the European Union, Italy, France and Germany are still experiencing the effects of the recession, with a drop in travel and tourism revenues in 2013.

However, key global economic challenges could threaten the sector's performance, including rising debt levels in the US, constrained capital markets in Europe, the threat of political unrest in the Middle East and Eastern Europe and decelerating economic growth in certain Asian economies.

The improving global economic climate filtered into real estate and this accelerated global demand in turn flowed into hotel real estate, albeit to varying degrees in different regions. Increased investment appetite was led by the United Kingdom and the Americas in 2013. In the Asia Pacific region, the market underwent a correction, following a period of high activity in preceding years.

Since the beginning of 2013, global hotel owners have shown a renewed interest in property investments. According to research by Jones, Lang and Lasalle, total global hotel investment transactions in 2013 amounted to US$46,5 billion, up 35% from the previous year. The growth rate in the Asia Pacific region doubled and transaction volumes in the EMEA region were up 17%. Acquisitions and investments in gateway international cities are currently in the highest demand, although secondary markets are gaining traction. Cross-border investments are expected to accelerate as operators seek to diversify and acquire assets in stable economies.

Changing global demographics, such as the rising per capita income in China, is expected to impact global travel behaviours, thereby creating opportunities for the hospitality sector to cater for emerging target markets. Another important demographic trend is the entry of "Millenials" (people born between 1980 and 2000) into the business travel sector. In the next four years, they are expected to account for half of employees worldwide and accordingly the business hospitality sector will need to accommodate their preferences. These include a need for instant gratification and equally rapid decision-making, high use of social media to document their life experiences and providing online feedback from personal travel experiences. With greater access to information, Millenials are also more discerning of price points when selecting hotel destinations, such as the provision of Wi-Fi and self service options that allow greater value for money.

The global hospitality sector outlook is positive, and growth is expected to accelerate, reflecting improving economic global growth prospects. Higher demand is expected to buoy travel prices, supporting healthier margins within the industry.

Tourist spend per trip is expected to rise in 2014, due to a longer average length of stay.

ECONOMY AND HOSPITALITY SECTOR IN AFRICA

In 2013, the growth of the broader African economy was approximately 4%, exceeding the global economic growth rate and demonstrating the resilience of the African continent's economy in the face of global economic impacts and regional challenges. Significant inward investment by offshore players continues, especially in the resource and commodity sector, including oil in Nigeria and gas in Mozambique. The GDP of the sub-Saharan region rose 5.0%; or 6.1% if South Africa is excluded, and is anticipated to improve slightly in 2014. East and West Africa recorded the fastest growth in 2013, which was in excess of 6.0%. The medium term growth prospects in Africa are robust, and are on track to achieve pre-2009 recession growth, reflecting global economics and the resolution of political and social conflicts in the region.

The pace of foreign investment in Africa is rising. According to a 2014 EY study, investment in Africa is on the radar screen of the global hospitality sector, especially the sub-Saharan region, highlighted by its higher economic growth rate. Investment in the region increased 23% in 2013, with about 80 hotels in various stages of development, even though construction is relatively expensive compared to other global markets such as the Middle East. However, air access to many African countries is a challenge and accordingly, South Africa, Kenya and increasingly Nigeria are key entry points for global travellers, enhancing the investment case in these countries.

The hospitality sector in North Africa has traditionally been the continent's best performing region, however countries in this market have been severely impacted

by recent political unrest and are unlikely to recover in the short to medium term. Accordingly, it is expected that travellers will pursue substitutes in safer countries, with potential downstream benefits for southern African countries.

Nigeria's economy is growing rapidly, led by its oil industry and as such, it is gaining traction as an important business travel destination. The number of available rooms is up by a third since 2009, including the opening of several five star hotels and underpinning growth rates of 59% and 42% in hotel revenues and stay nights respectively between 2009 and 2013 (PricewaterhouseCoopers ("PwC")). With new available rooms coming on stream and stay nights lengthening, the fundamentals for hospitality are positive with forecast growth exceeding 20% in the next five years. Despite persistent concerns raised by recent politically motivated attacks, hotel investment in the region continues and the number of hotel rooms is expected to triple by 2018. The Nigerian government is also investing in infrastructure that will make tourism more appealing.

In contrast, Kenya's hotel revenues declined by a cumulative 9.2% in 2012 and 2013 due to concerns about terrorism and several countries, including the United States, the United Kingdom and Germany, issued travel alerts discouraging visitors to Kenya. Although stay unit nights started to recover at the beginning of 2014, this was stalled by further political unrest and the recent outbreak of Ebola in West Africa and declines in the hospitality sector are expected for the rest of the year. The contagion could also dampen tourism further afield to other African countries. Despite these factors, new hotels are under construction, with plans by luxury international brands to open hotels in the next few years. In addition, increased domestic travel is expected, led by the emerging middle class. China and India are important feeder markets, in line with growing trade between these countries.

In the Middle East, property investments, with a bias towards hotels and resorts, continue to be a driving economic force. Significant hotel developments are underway that will increase the hotel capacity in the region. By way of example, the total number of hotel rooms in Dubai alone is set to increase from some 90 000 to almost 120 000.

Business overview (continued)

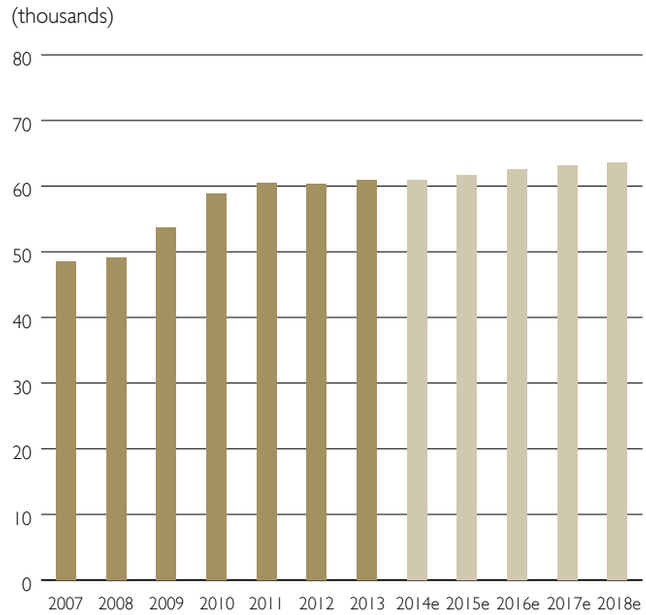
ECONOMY AND HOSPITALITY SECTOR IN SOUTH AFRICA

Economic growth in South Africa continued to lag the global recovery in 2013, slowing to 1.9%. However, projections still point to faster growth in the next five years. In the first half of 2014, the overall economy was impacted by the mining strike in the platinum industry. While Hospitality benefited from a strong recovery in the first part of the year, the 2014 Easter weekend coincided with several other public holidays around the same period, and was exacerbated by the lead up to the national elections in May 2014, with muted demand for business travel during this time. Renewed impetus on public sector infrastructure spending since the elections could support a higher rate of economic growth going forward.

The South African government has also accelerated its support to the domestic tourism sector, signing the Tourism Act into law. This incorporates the National Tourism Sector Strategy that aims to encourage tourism because it is seen as an important driver of economic and employment growth. The Act also oversees the quality of tourist services and endorses the country as a destination for conventions, conferences and business travel. The South Africa National Conventions Bureau (SANCB), a government agency established in 2013, is mandated to promote South Africa as a destination for meetings, incentives, conferences and exhibitions. Major domestic conference facilities are also positioning themselves, including the planned expansion of the Cape Town International Conference Centre ("CTICC") which would benefit the adjoining Westin Cape Town.

The growth in total number of foreign visitors to South Africa slowed to 3.9% in 2013, from 10.2% in 2012. Visitors from the UK and US once again ranked as the top source markets of foreign visitors from non-African countries. Germany and China remain large source markets, growing by 12.8% and 16.1% respectively in 2013. Of the visitors from China, 67.2% were leisure travellers and 29.3% visited South Africa as part of a longer visit that included other destinations while 3.2% were business travellers. Foreign travel to South Africa in 2013 was boosted by the African Cup of Nations football tournament early in the year and in December 2013, many foreign dignitaries visited the country after the passing of Nelson Mandela. The conferencing sector is growing rapidly, with strong demand in Cape Town, Johannesburg and Durban.

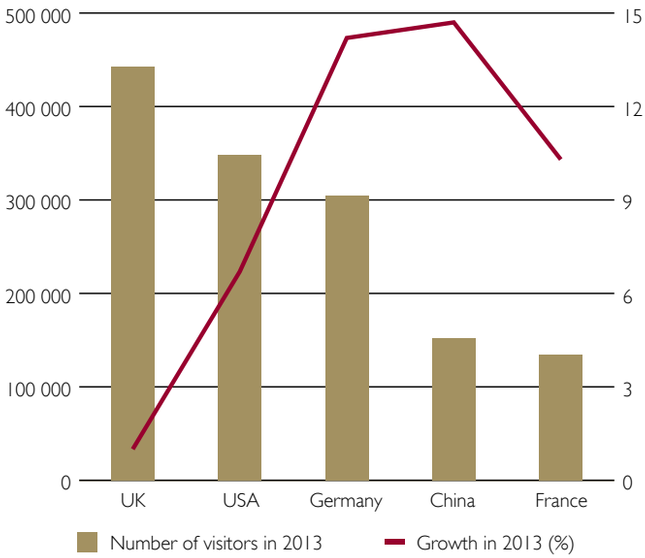
Available rooms in South Africa



Sources: PricewaterhouseCooper LLP, Wilkofsky Gruen Associates

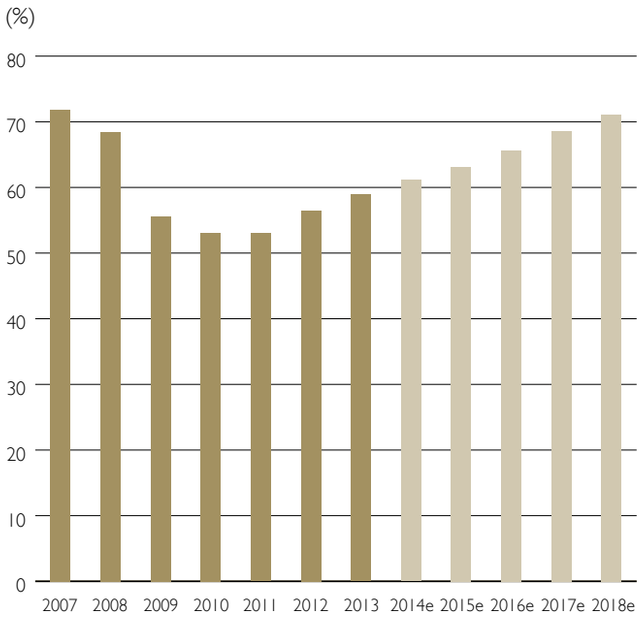
Despite the pedestrian domestic economic growth, international travel to South Africa continues to increase, providing support for room rates. Total hotel room revenue in South Africa rose 14.6% in 2013 and is anticipated to continue growing in the low double digits in 2014 (PwC), underpinned by real increases in room rates after several years of low rate increases.

The top five tourism source markets to South Africa



Sources: Statistics SA

Occupancy rates in South Africa



Sources: PricewaterhouseCooper LLP, Wilkofsky Gruen Associates

According to the Smith Travel Research (STR) Global South Africa Hotel Review, overall occupancies in South Africa for all hotels for the 12 months ended 30 June 2014 increased by 1.4% to 62.3% compared to the previous year. The average daily rate (ADR) increased by 9.6% daily to R1 001 over the same time horizon, resulting in RevPAR growth of 11.1%.

The global investment trend in the hospitality property sector is also a strong theme in the domestic market. A number of upgrades are underway and new developments are being built, especially in the major metropolitan centres. Recent openings include the EAH in Sandton, replacing the recently closed Garden Court and the new Verde Hotel at the Cape Town International Airport. In addition, rebranding opportunities are under consideration by international hotel brands in the Cape Town node and new hotel developments are being evaluated, including mixed-use developments in central Johannesburg and Pretoria. However, the industry is cautious of avoiding the risks associated with bringing too much capacity on stream, having learnt from the excess capacity that was built in the run up to the 2010 Soccer World Cup. The number of available rooms increased marginally, by 0.3%, in 2013 to approximately 63 600 hotel rooms.

There has also been consolidation among hotel operators, including, most notably the acquisition of Protea Hotels by Marriott International. In addition, Three Cities Group was purchased by African Hotels and Adventure (AHA), owned by Tourvest. Tsogo Sun also acquired Grand Parade Investments' 40% stake in Sun International's Grand West Casino (Western Cape), the Table Bay Hotel and Worcester Casino & Hotel and purchased 25% of Redefine International's hotel management company. Minor Hotel Group (MHG), operator of over 110 hotels across Asia Pacific, the Middle East, the Indian Ocean and Africa acquired a portfolio of eight properties in Africa from Sun International.

The outlook for the South African economy remains muted, but is not expected to shift into a recession as growth of some 1.8% is anticipated in 2014. Meanwhile the Monetary Policy Committee is expected to continue tightening, with estimates that interest rates will rise by 100 basis points in the next year. There are continued domestic inflationary pressures led by the recent multi-year wage settlements reached by trade unions in key industry sectors that have been well above the current CPI level, as well as rising utility and transport costs. These factors have culminated in a reticence among traditional financial institutions to extend credit to hotel owners and developers. However, having launched its medium term note programme in the last year and with its strong relationships with key bankers, Hospitality has largely been shielded from this trend.

Business overview (continued)

LISTED PROPERTY SECTOR OVERVIEW

The combined market capitalisation of the 32 counters in the South African-listed property sector was R294 billion at the end of June 2014, including six new listings on the JSE Limited during the year.

The year to 30 June 2014 proved to be a period of consolidation for the listed property sector, following several years of rapid gains with the sector delivering high returns relative to the broader equity market. While the listed property sector trended lower in the first eight months of the year under review, it rebounded from its low in February 2014 ending the 12 months to June 2014 with an annual return of 5.97%.

ASSET CLASS RETURNS	JUNE 2014	JUNE 2013
SA Equities[2]	32.74%	21,0%
SA Listed Property[1]	5.97%	24,0%
SA Bonds[3]	5.48%	6,3%
SA Cash[4]	5.45%	5,3%

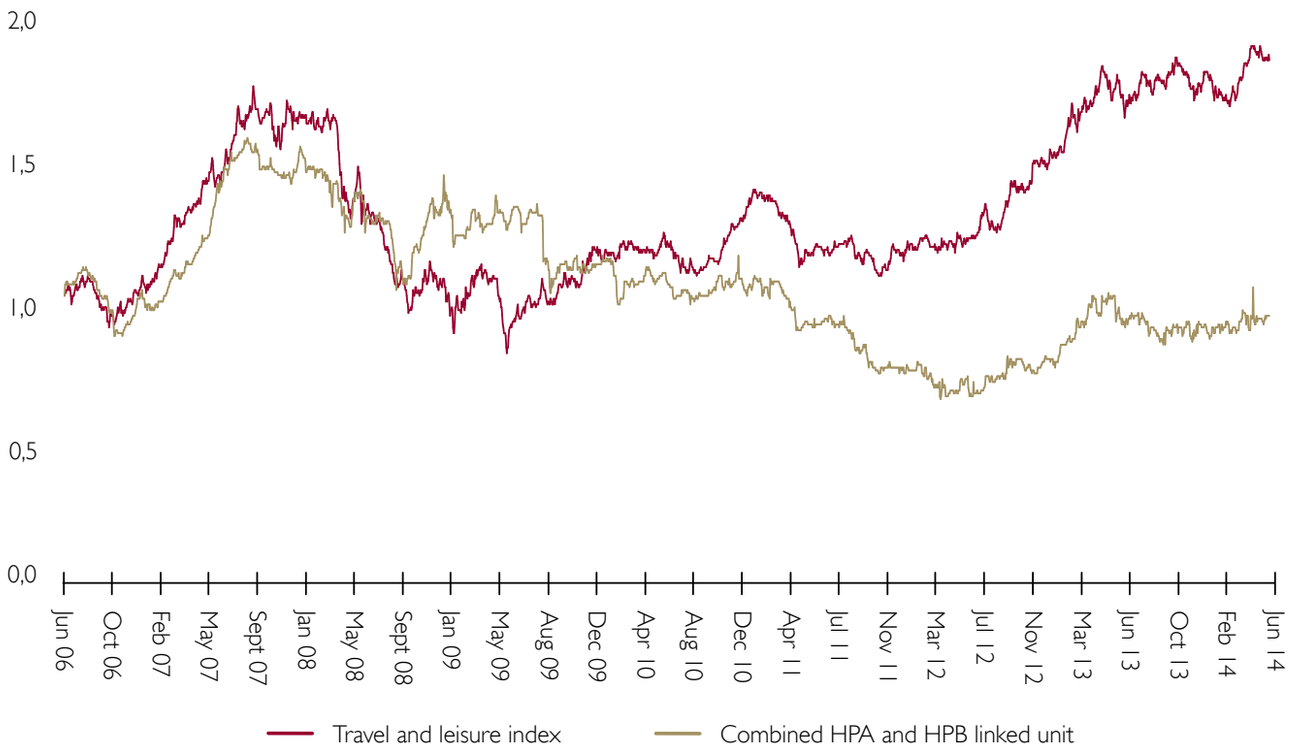
Source: Catalyst Fund Managers

1 *SA Listed Property Index*
2 *All Share Index*
3 *All Bond Index*
4 *STEFI*

For the last 12 months SA Equities recorded the highest total return, followed by SA Listed Property, SA Bonds and SA Cash. SA Listed Property has shown a decline in total return for the 12 months to June 2014 (5.97%) compared to the 12 months to June 2013 (24.0%).

Analyst Team – Kim Irmler and Silondiwe Nkosi

Hospitality combined A- and B- linked unit price change versus travel and leisure index change



Hospitality linked unit price relative to listed property index (J253)

Minister of Tourism Derek Hanekom with winning Chef Zwelithini Tshuma and judges Paul Hartmann (SA Chef's Association) and Chris de Klerk (Cape Legends)

Thabo Nakedi (2nd prize), Daniel Negrini (1st prize), Dannyboy Robinson (3rd prize)

Congr

WHO IS GOING PLACES?

Congratulations to
Zwelithini (Andrew) Tshuma,
of Radisson Blu Gautrain, who was presented with this year's **Winning Chef** title at the final cook-off of the **Cape Legends Inter-Hotel Challenge.**

Andrew was awarded a three–week stay at the Taj Mahal Palace in Mumbai, with return flights sponsored by Cape Legends. During his stay, Andrew will be introduced to the varied cultures and unique tastes of India in their superb restaurants.

Compliments also go out to **Thabo Nakedi** who won **1st Runner up** in **The Goldcrest HTA In-Service Apprentice Chef of the Year** competition earlier this year. The judges commented that the skill and dedication of all the young talented chefs who competed surpassed expectations.

ratulations

Executive
OVERVIEW

INTRODUCTION

The Fund benefited from a buoyant hospitality sector, once again returning strong distribution growth of 14.5% per combined linked unit on the prior year and exceeding the forecast set out in the December 2013 results announcement ("forecast") by 0.5%. The A-linked unit distribution grew by 5.0% to 141,35 cents, in line with the Fund's distribution structure and the forecast. Distribution on the B-linked unit showed an increase of 85.0% to 33,45 cents compared to the previous year and exceeding the forecast by 2.6%.

The Fund's focus on increasing its exposure to large hotel properties in major metropolitan areas is paying off, with growing business travel demand in these nodes. Its properties in Cape Town and Sandton continue to perform well, in particular the Westin Cape Town, the Radisson Blu Waterfront and the Radisson Blu Gautrain. In line with the Fund's strategy to constantly enhance the quality of core properties to sustain their performance, it continually invests to improve the facilities at these hotels. Selective refurbishments were also carried out at other properties in the Fund's portfolio in order to maintain their appeal and ensure sustainable rental income streams.

Hospitality **continues to enhance the overall quality of its property portfolio, in line with its strategy**

Reflecting Hospitality's proactive asset management strategy, the Fund also introduced new hotel operators at the Mount Grace Country House and Spa (Mount Grace) and the Kopanong Hotel & Conference Centre (Kopanong), and is working with these new managers to reposition the hotels to achieve Hospitality's required returns.

TRADING ENVIRONMENT

According to the STR Global South Africa Hotel Review, the hotel industry reported a year-on-year increase in occupancy of 1.4% to 62.3% and average daily rates ("ADR") were up 9.6% to R1 001, resulting in revenue per available room ("RevPAR") growth of 11.1% for the year ended 30 June 2014. The Fund's growth for that portion of its portfolio which is subject to variable rental income and excluding conference hotels (hotels where the revenue generated from conferencing exceeds rooms revenue) outperformed the broader industry, with an overall occupancy of 61.4% (2013: 60.1%). Its overall ADR growth of 14.0% to R1 162 and RevPar growth of 16.5% was well ahead of the industry.

The consistent RevPAR growth confirmed the recovery trend that has benefited the industry since October 2011. With demand for hotel accommodation continuing to increase and limited creation of additional room stock, demand pull is driving room rate growth.

Insofar as the Fund's fixed lease properties are concerned, management constantly monitors and interacts with its tenants in order to maintain a full understanding of their underlying business performance and evaluate the serviceability of rentals. During the year, the Fund's asset management team was bolstered to ensure it has the capacity to effectively support the hotel operators in optimising the performance of their properties.

INVESTMENT STRATEGY

The Fund's investment strategy is to sustainably grow its property base through acquisitions and developments which enhance long-term unitholders' returns. While Hospitality's ongoing objective is to diversify the portfolio in South Africa by geographic location, patronage profile and hotel grading, it has a specific bias towards investing in large, well-located properties in major metropolitan areas with strong brands. Hospitality's primary investment focus remains in South Africa and is unlikely to change in the foreseeable future.

Hospitality's strategic objectives also include ongoing improvements at specific sites to enhance the quality of its property portfolio. Having reached critical mass as a result of investing in a number of key properties since listing, the Fund's current focus is on enhancing the quality of its assets. This includes upgrades and refurbishments to make sure that properties continue to appeal to their main target segments as well as actively pursuing opportunities to acquire hotel properties that meet its investment criteria and finally disposing of non-core properties that do not meet its investment profile.

CAPITAL STRUCTURE

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

- A-linked units trade under the share code HPA and have a preferential claim to earnings with capped growth at the lower of CPI or 5% from the entitlement in the prior comparable period.
- B-linked units trade under the share code HPB and receive the balance of the distribution.

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

The Fund's application to the JSE for REIT status was granted with effect from 1 July 2013 and it has until 1 July 2015 to convert the

Executive OVERVIEW (continued)

debentures to shares. In conjunction with the conversion process, Deloitte & Touche Corporate Finance was appointed to conduct a review of the Fund's capital structure and a number of options are currently being explored.

PROPERTIES AND LEASES

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

Fixed lease properties

The fixed leases applied to four properties for the year and recorded gross rental income of R121,1 million, accounting for 28% of total rental income.

These properties are: Birchwood Hotel & OR Tambo Conference Centre (converted to F&V lease from 1 July 2014), Champagne Sports Resort, Kopanong Hotel and Conference Centre (converted to F&V lease from 1 December 2013) and Premier Hotel King David. Rentals under fixed lease agreements are determined by commercial lease terms with inflation linked escalations.

Fixed and variable lease properties

F&V lease agreements comprise some 50% fixed lease rental, with the balance being variable rental equivalent to between 90% and 98% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after paying the fixed portion of the lease.

The F&V lease properties are: Arabella Hotel & Spa, Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Kopanong Hotel and Conference Centre (from 1 December 2013), Inn on the Square, Mount Grace Country House and Spa, Protea Hotel Edward, Protea Hotel Hazyview, Protea Hotel Hluhluwe & Safaris, Protea Hotel Imperial, Protea Hotel Marine, Protea Hotel Richards Bay, Protea Hotel The Richards, Protea Hotel The Winkler, Protea Hotel Victoria Junction, Radisson Blu Gautrain Hotel, The Bayshore Inn and Westin Cape Town.

The company's 18 F&V lease properties contributed 66% of total rental income for the period with gross rental income of R281,0 million.

Variable lease properties

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

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

For the reporting period, these properties contributed 6% of total rental income with gross rental income of R24,2 million.

RESULTS

The Fund reported solid rental income growth of 19.6% to R426,3 million (2013: R356,3 million). Like-for-like rental income growth for the portfolio's properties subject to variable rental income (excluding Radisson Blu Gautrain Hotel which was acquired in May 2013 and Kopanong which was previously on a fixed lease) was 13,3%, driven mainly by the higher ADR achieved by the Fund. RevPAR was boosted in December 2013 as many foreign dignitaries travelled to South Africa to pay tribute to late President Nelson Mandela. The average rental increase of only 4.2% on the fixed lease portion of the portfolio, including a 3% escalation in the rental at Birchwood Hotel & OR Tambo Conference Centre ("Birchwood"), (contributing 19.7% of total current rental income) dampened overall rental income growth. Strong demand in Sandton and Cape Town, where the Fund has several well-located properties, underpinned the Fund's growth. While trading conditions in the first nine months of the year were buoyant and demand trended consistently higher, the timing of public holidays and National Elections in April and May 2014 dampened Hospitality's business and conferencing income streams in the last three months of the financial year. After changing hotel operators from 1 December 2013 at Mount Grace (due to lost market share) and at Kopanong (tenant placed in business rescue and defaulted on lease payments) the performance of these properties is yet to recover to the level required by the Fund. Accordingly, Hospitality is restructuring and repositioning these properties with the operators to improve returns.

Fund expenses increased by R10,6 million (35,6%) to R40,5 million (2013: R29,9 million) with the major contributors being:

- An early repayment penalty of R4,9 million that was paid to Absa Bank ("Absa") in the second half of the year after the Fund's R550 million facility with Absa was repaid with proceeds from the Domestic Medium-Term Note ("DMTN") Programme and an additional facility from Nedbank.
- Debt raising fees of R1,9 million in respect of the Absa term loans which were being amortised over the original loan period that were expensed in the second half of the year;
- Higher employee costs following the recruitment of additional specialist skills to enhance the Fund's capacity to effectively manage its growing portfolio and the increasing proportion of F&V leases.
- Expenses benefited from a net bad debt recovery of R1.5 million. R5,7 million was recovered in the second half of the year from the previous tenant at Kopanong after raising a provision of R4.2 million in the first six months of the year.

Net finance costs increased 10.6% to R146,3 million (2013: R132,3 million), in line with higher debt levels after funding the acquisition of the Radisson Blu Gautrain Hotel with the DMTN Programme. The 50 basis point interest rate hike late in the period had a marginal impact.

Distributable earnings per combined linked unit grew by 14.5% to 174,80 cents (2013: 152,71 cents), and exceeded the forecast of 173,96 cents by 0.5%. The A-linked unit distribution of 141,35 cents (2013: 134,63 cents) showed a 5.0% increase, and was in line with the forecast. The reported distribution of the B-linked unit grew 85.0% to 33,45 cents (2013: 18,08 cents), exceeding the forecast by 2.6%.

The following table reflects the operating financial results for the year ended 30 June 2014 compared to the previous financial year:

	2014 R'000	2013 R'000	VARIANCE R'000	VARIANCE %
Contractual rental	426 276	356 337	69 939	19.6%
Profit on sale of properties	–	948	(948)	(100%)
Fund expenses	(40 524)	(29 878)	(10 646)	(35.6)
Net finance costs	(146 326)	(132 320)	(14 006)	(10.6%)
Taxation	(181)	(1 158)	977	84.4%
Income from associates	238	126	112	88.9%
	(239 483)	(194 054)	(45 429)	(23.4%)
Debenture interest	(240 014)	(200 184)	(39 830)	(19.9%)
Recoupment of debenture interest	531	6 130	(5 599)	(91.3%)
Number of linked units	138 150	137 238	912	0.7%
Distribution – A-linked unit (cents)	141,35	134,63	6,72	5.0%
–Interim	69,83	66,51	3,32	5.0%
–Final	71,52	68,12	3,40	5.0%
Distribution – B-linked unit (cents)	33,45	18,08	15,37	85.0%
–Interim	19,25	9,19	10,06	109.5%
–Final	14,20	8,89	5,31	59.7%
Combined distribution (cents)	174,80	152,71	22,09	14.5%
–Interim	89,08	75,70	13,38	17.7%
–Final	85,72	77,01	8,71	11.3%

The directors are not aware of any material subsequent events between year-end and the date of issue of this report.

Executive OVERVIEW (continued)

FUNDING

The group's debt facilities with financial institutions as at 30 June 2014 amounted to R1,89 billion. Total funds drawn on these facilities were R1 77 billion resulting in a loan to value (LTV) ratio (total interest–bearing liabilities/investment properties plus properties held for sale) of 36.72% (2013: 34.4%). The interest cover ratio was 2,64 which is well within the minimum covenant level of 2,00 required by the debt providers.

The weighted average cost of borrowings was 9.14% (2013: 8.56%) for the period under review with 58% of the group's borrowings at year-end subject to fixed interest rates.

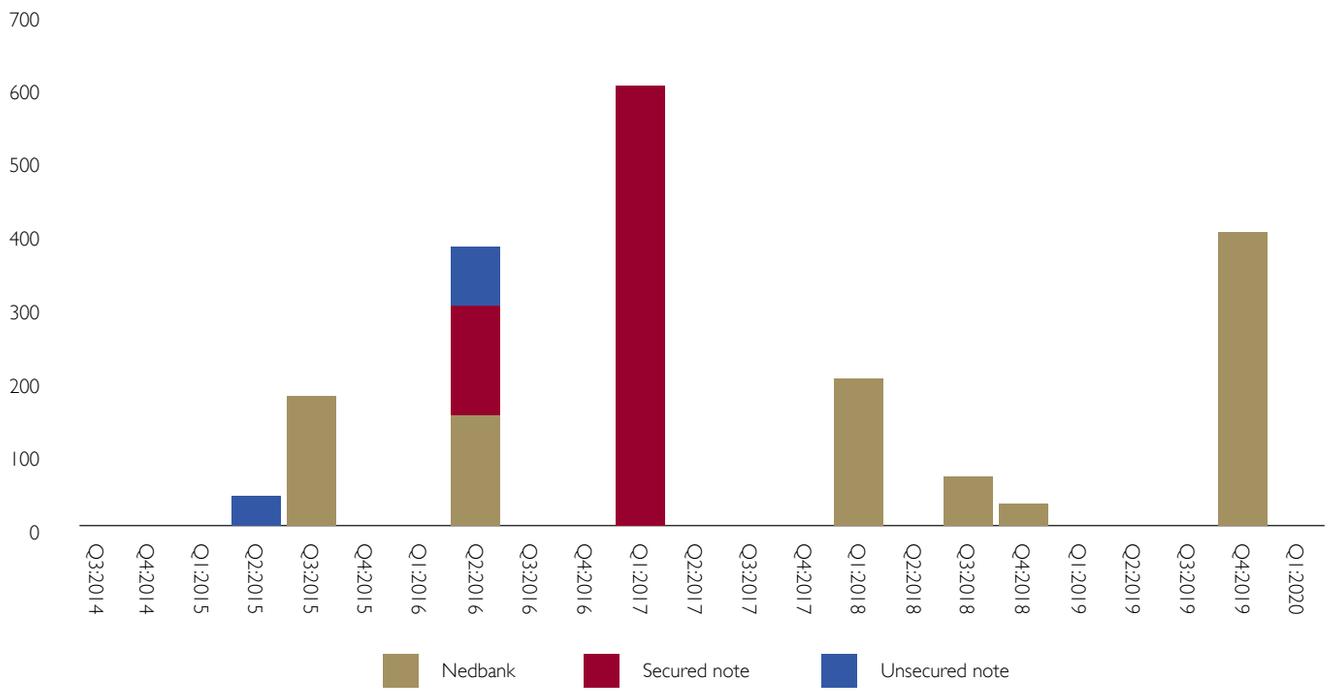
	FACILITY (R'000)	INTEREST RATE	REPAYMENT DATE
NEDBANK			
Loan 1	176 300	3 month JIBAR plus 2.9%	July 2015
Loan 2	400 000	3 month JIBAR plus 2.8%	Oct 2019
Loan 3	30 250	3 month JIBAR plus 2.85%	Oct 2018
Loan 4	150 000	3 month JIBAR plus 2.38%	Feb 2018
Loan 5	150 000	3 month JIBAR plus 2.84%	June 2016
Loan 6	50 000	3 month JIBAR plus 2.38%	Feb 2018
Loan 7	67 000	3 month JIBAR plus 2.38%	July 2018
	1 023 550		
CORPORATE BONDS			
Secured – Hospitality 01	150 000	3 month JIBAR plus 1.82%	April 2016
Unsecured – Hospitality 02	40 000	3 month JIBAR plus 2.4%	April 2015
Unsecured – Hospitality 03	80 000	3 month JIBAR plus 2.7%	April 2016
Secured – Hospitality 04.1	300 000	3 month JIBAR plus 2.0%	Feb 2017
Secured – Hospitality 04.2	100 000	3 month JIBAR plus 2.0%	Feb 2017
Secured – Hospitality 05	200 000	Fixed at 9.89%	Feb 2017
	870 000		
TOTAL	1 893 550		

			EXPIRY
SWAPS/FIXED			
Nedbank swap 1	150 000	Collar swap – Floor 6.0%/Ceiling 9.09%	Sep 2016
Nedbank swap 2	150 000	Vanilla swap – 6.4%	Oct 2016
RMB swap 2	346 667	Vanilla swap – 7.96%	July 2016
RMB swap 3	250 000	Collar swap-Floor 6.65%/Ceiling 9.20%	Feb 2016
Secured – Hospitality 05	200 000	Fixed at 9.89%	Feb 2017
	1 096 667		

The Fund continually evaluates and plans the optimal method of funding new acquisitions and replacing debt with consideration given to the options of new unit issues, replacement of bank funding and the group's DMTN Programme. When issuing new debt the group endeavours to optimally spread the maturity to minimise its exposure to large debt maturities in any single year. In this regard the expiry profile was restructured in the first half of the period to provide an even expiry profile with limited concentration exposure.

Rand Merchant Bank ("RMB"), acting as arranger, successfully facilitated a R500 million secured note issue on 17 February 2014. The issue comprised R300 million floating rate notes at 3-month JIBAR plus 200bps and R200 million fixed rate notes at an interest rate of 9.89% for a three-year period. Nedbank also provided a new term loan of R50 million at 3-month JIBAR plus 238bps. The proceeds were utilised to repay all the facilities previously provided by Absa amounting to R550 million. This decision was taken due to the onerous conditions contained in the Absa loan agreement which were hampering business decisions. The Fund paid an early repayment penalty of R4,9 million to Absa and debt raising fees of R1,9 million which were being amortised over the loan period were expensed in the second half of the year. The two Absa swaps were also novated to RMB on 10 February 2014. A further R100 million was raised through corporate bonds issue in April 2014, the proceeds of which will be utilised to fund the capex programme in FY2015. The Fund thanks Nedbank, RMB, Bowman Gilfillan and investors in the note programme for their continued support and assistance in restructuring and enhancing the Fund's debt facilities.

Debt Maturity (Calendar year)



PROPERTY PORTFOLIO

The Fund's portfolio comprises interests in 26 hotel and resort properties in South Africa. As at 30 June 2014, the carrying amount of the portfolio was R4,8 billion.

The net asset value (NAV) per linked unit as at 30 June 2014 was R11,40, an increase of 4.1% from 2013 primarily as a result of an increase in the valuation of the standing portfolio. The combined NAV of R22,80 is in line with the combined market value of the units at year-end. The weighted average lease expiry period is 8,47 years.

African Pride Hotels (owned by Protea Hotels) took over as hotel manager at Mount Grace on 1 December 2013, positioning the property to regain lost market share by leveraging off Protea Hotels' global sales and marketing infrastructure, enabled with its recent acquisition by Marriott International. The Fund also concluded a new lease agreement with a subsidiary of African Hotels and Adventures ("AHA") (a division of Tourvest) for Kopanong on 1 December 2013. Through the extensive sales and marketing network that is available to AHA the performance of this property should improve.

Executive OVERVIEW (continued)

In April 2014, the ownership of the Courtyard Cape Town property, 50:50 owned by the Fund and City Lodge, reverted to the University of Cape Town. The valuation of this property was fully written down to zero in June 2013 and no further impairment was raised in 2014.

ACQUISITIONS AND DISPOSALS

Increasing awareness of Hospitality's specialist hotel property investment focus is generating a constant flow of investment opportunities to the Fund, including new developments in major metropolitan nodes which have proven to be more robust than those located in outlying areas. Although no major acquisitions of new properties were finalised during the year, Hospitality has invested significant time and effort in evaluating a number of potential investments to deliver on its strategy of acquiring hotels that meet its investment criteria. The most recent acquisitions, being the Westin Cape Town (2011) and the Radisson Blu Gautrain Hotel in Sandton (2013) have performed well and have become key assets that form part of the benchmark against which new acquisitions are evaluated.

The renegotiation agreement of the new fixed and variable lease at Birchwood will result in a reversion in net income of approximately R14 million in the 2015 financial year. The renegotiation included the investment by the Fund of a further R60 million in the property for the Terminal Convention Centre development, which is uniquely positioned to accommodate large conferences of approximately 2 000 delegates. Its scale and proximity to the OR Tambo International Airport coupled with the 665 available rooms continue to differentiate this hotel from its competitors. In the year ahead, 167 rooms will also be renovated and repositioned to meet the growing demands of the corporate market.

The Fund has identified certain non-core properties , which do not meet its long-term investment criteria valued at R311,9 million, for disposal and continues to market these properties. These properties remain profitable and Hospitality is not under pressure to compromise on pricing.

DEVELOPMENTS AND CAPITAL PROJECTS

The Fund completed various refurbishment projects during the period, as follows:

- An upgrade at the Protea Hotel The Richards, located in Richards Bay, was completed with positive feedback from hotel customers.
- Completion of the Protea Hotel Hluhluwe & Safaris refurbishment, enabled the property to be effectively marketed to the improving foreign tourist market.
- The irrigation system of the world class Arabella Golf Course was upgraded during the year.

In 2015, capital projects amounting to R160 million are planned. These include:

- The upgrade of 167 rooms at the Birchwood as well as the addition of The Terminal Convention Centre.
- The construction of four new bedrooms and upgrades to the public areas at the Radisson Blu Gautrain Hotel.
- A refurbishment of the conferencing facilities and public areas at the Radisson Blu Waterfront which is currently underway.
- Construction of an outdoor swimming pool at the Westin Cape Town which will enhance the appeal of the hotel to the leisure market.
- Repositioning of Mount Grace with additional facilities to enhance its appeal to the family market.
- Refurbishment of the Courtyard Eastgate property (in conjunction with City Lodge) to maintain market share.

The quality of the Fund's properties continue to provide a solid platform for future income growth. The Fund is cognisant of future refurbishment projects that will attract additional capital investment.

The Overstrand Municipality approved the rezoning application on the Phase 2 at Arabella Hotel & Spa in the first quarter of 2014. However, two environmental associations subsequently appealed this decision, and these will be processed by the Department of Environmental Affairs with the Minister of Environmental Affairs and Development Planning making the final decision. The Fund continues to monitor the situation closely and is engaging with all the relevant parties to reach a timeous resolution to this process. If the development rights are finally secured after the appeals process, the Fund will market this scheme with a view to realising a profit from the sales of 352 residential stands, to be classified as distributable income.

PORTFOLIO AND ASSET MANAGEMENT

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

Selection of the tenants, management company and the hotel brand, which are best suited to a specific property, is crucial to effectively manage the operational risks and maximising the performance of each hotel. Conclusion of leases with tenants is preceded by a formal process to establish the best fit between the hotel property, tenant and brand to ensure optimal performance of the property. Proposals are initially obtained from selected tenants and are evaluated by the

investment committee who makes a recommendation to the board for final approval.

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

Among the challenges in the current operating environment are the substantial increases in overhead costs, particularly administered prices such as electricity, water and municipal rates. As these costs are not under the control of the Fund, the focus is on proactively managing consumption through energy and water-saving initiatives (see pages 83 to 85 for more details).

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

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

The Fund has developed various structures enabling it to effectively manage the variable income properties and these are actively used to enhance analysis, forecasting, cost control measures and improve productivity.

- Reservations status: Information relating to the exact reservation status for each given time period and each market segment enables detailed analysis and forecasting. These reports are distributed daily to the Hospitality team.
- Revenue management: The use of a Property Management Software system that includes all guest information facilitates effective forecasting and accurate pricing. Recent additions hereto are the Food & Beverage ("F&B") benchmarkings reports for the Fund's larger operations.
- High-quality forecast tools: Proprietary Software that provides accurate daily, weekly and monthly forecasts is a pre-condition for good short- and long-term planning.
- Sales and marketing reviews: Effective use of the sales reporting tools and overview of the statistical data provided monthly by the operating companies and measuring the performance of the various sales teams. Recent additions hereto are the Pace reports and STR Global Bandwidth reports for all the Fund's Hotels.
- STR competitor analysis and performance benchmarks are being evaluated monthly to ensure the competitors remain relevant and the Fund's properties are outperforming these properties.
- Operational management: Monthly operational reviews occur at all the major units within the Fund with quarterly reviews occurring at outlying and fixed lease units. Interactions are also held on a quarterly basis together with the Executive Management of the Hotel Operating Companies to ensure strategies are aligned and that global best practices are being maintained at all the Fund's properties.
- Mystery guest visits and guest satisfaction reporting tools have been recent additions to the monthly review processes with operations.
- Financial reporting: Detailed monthly reporting together with monthly financial reviews allows timeous intervention in the event of divergence from the business plans. Benchmark statistics are used to enhance performance by the various management companies. Full balance sheet reviews are undertaken monthly.
- Facilities management: Monthly operational review inspections take place at all the major units within the Fund together with quarterly reviews at the outlying units and fixed lease properties. The management action plans are reviewed at these meetings and reassessed for relevance and in accordance with the risk management programmes in place at the hotels.
- Risk management reviews: These reviews are conducted by qualified external consultants who conduct these every six months at the major properties. The remainder of the Fund's properties are reviewed annually – these management action plans form part of the ongoing facilities management reviews.

LIQUIDITY

During the year, 26.6% of the A-linked units and 45.0% of the B-linked units were traded on the JSE Limited.

PROSPECTS

The long-term fundamentals for the hospitality industry remain positive, despite a slowdown in the recovery trend during the last three months of the financial year. Looking forward, an improving global economy and a weaker rand could provide support for foreign visitors to the country. Hospitality is however concerned that the more stringent travel regulations that the South African Department of Home Affairs is implementing, could dampen growth within the tourist and the foreign conferencing markets. This includes the requirement for children under 18 exiting or entering the country, to carry a copy of their unabridged birth certificates and the requirement for in-person visa applications to SA Foreign Missions. The Fund will also monitor the possible impact of the new Employment Equity Act on its hotel managers and tenants.

Recent reductions in GDP growth rates, increased labour demands and potential interest rate hikes are of concern but the Fund remains cautiously optimistic and expects its overall occupancies to remain stable and room rates in major centres to continue to show real growth.

The Fund continues to evaluate acquisition opportunities that meet its investment criteria and that are able to support and improve distribution growth.

For the year ending 30 June 2015, combined distributions are expected to increase by 4.0% on the prior year to 181,87 cents. A 5.0% growth on the prior year is forecast for the A-linked unit to 148,42 cents while the distribution per B-linked unit is expected to remain the same at 33,45 cents. This forecast is based on achieving an occupancy of 64.8% and ADR of R1 248 for the Fund's portfolio excluding conference

Executive OVERVIEW (continued)

hotels. The forecast includes the expected impact of the Birchwood net income reversion of R14 million, which if excluded, would have resulted in an increase in the combined and B-linked unit distributions of 10.1% and 31.8% respectively.

Finance costs are expected to increase, having forecast interest rate hikes of 100 bps over the year and additional debt-funded capital expenditure of R100 million. Hospitality's underlying performance for the 2016 financial year will be impacted by a renewal of the lease at Champagne Sports Resort ("Champagne"). Preliminary negotiations indicate a reversion in rental income of approximately 20% and also a requirement to refurbish the hotel in order to maintain market share.

No further rental income reversions are expected following the restructure of the Champagne lease.

The Fund's three year forecast to 30 June 2017, is as follows.

DISTRIBUTION	A UNIT (CPU)	B UNIT (CPU)	COMBINED UNIT (CPU)
FY 2015	148.43	33.45	181.88
FY 2016	155.85	38.08	193.93
FY 2017	163.65	46.20	209.85

The detailed forecast is outlined on pages 140 to 146.

APPRECIATION

The management team of Hospitality extends its gratitude to the Board of directors for invaluable inputs into strategy and advice on matters impacting the Fund during the year.

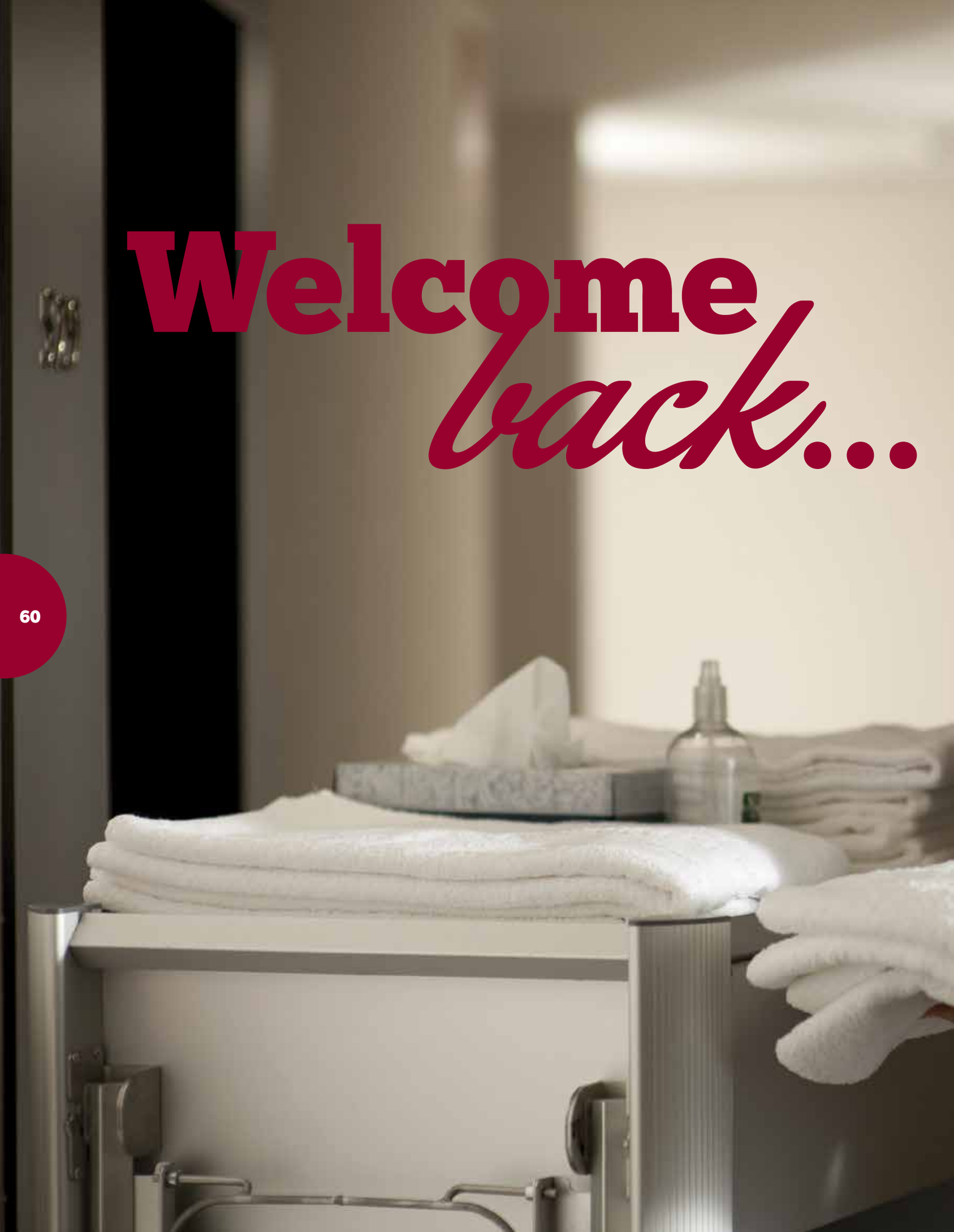
Management thanks the Fund's loyal unitholders, its new bondholders and RMB and Nedbank, for their continued loyalty and support that enabled Hospitality to pursue its strategic objectives.

The employees of Hospitality, who have been instrumental in delivering the improved performance, are acknowledged for their hard work and commitment during the year.

Management is also grateful to its loyal tenants and the employees of the hotel management companies who have also gone above and beyond the call in contributing to our 2014 performance.

Operations – Baneesha Gandabhai, Danie Smit, Mario Monica, William McIntyre and Aneke Kleynhans

Welcome *back...*



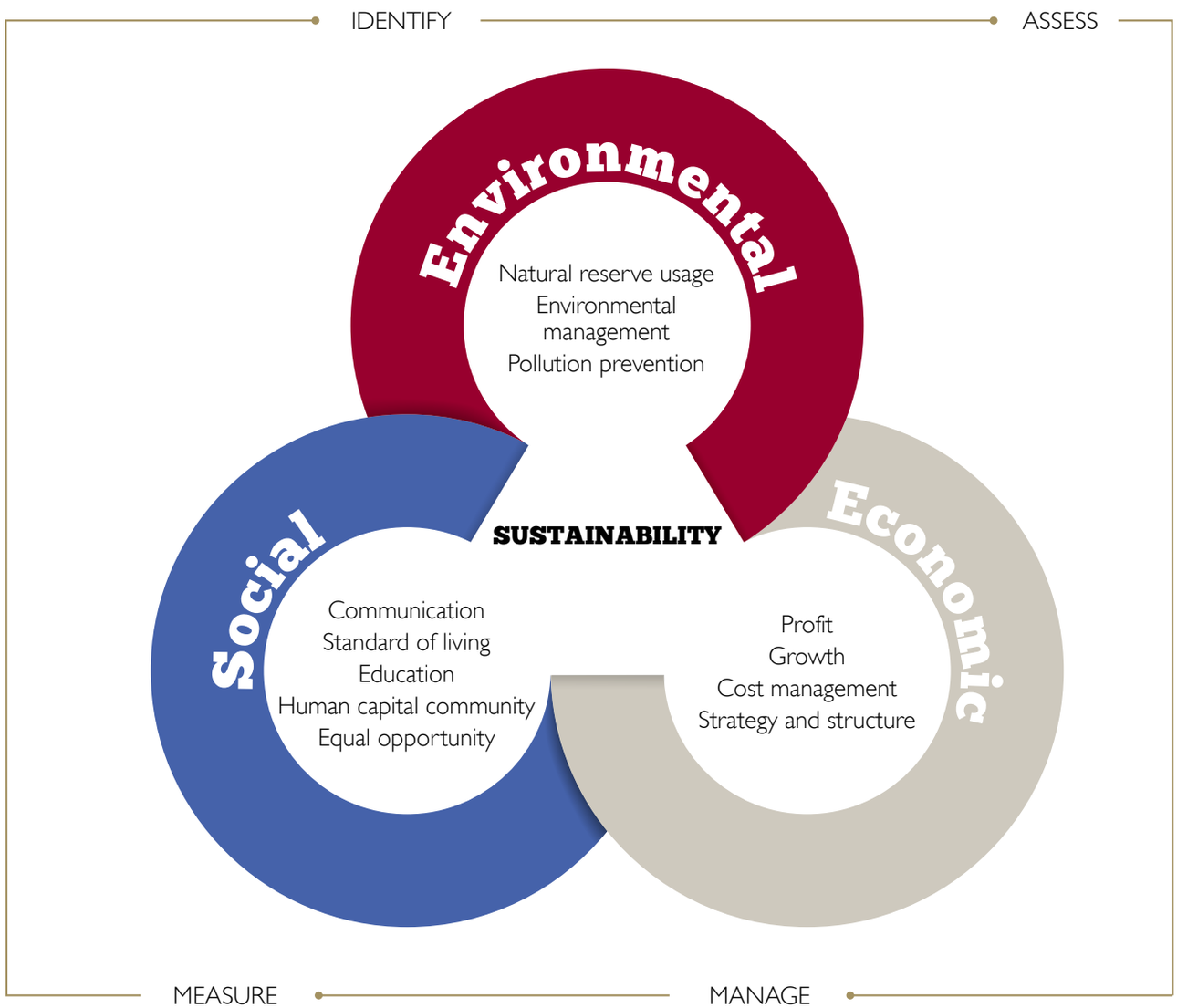
Governance

Risk and sustainability

RESPONSIBILITY FOR GOVERNANCE

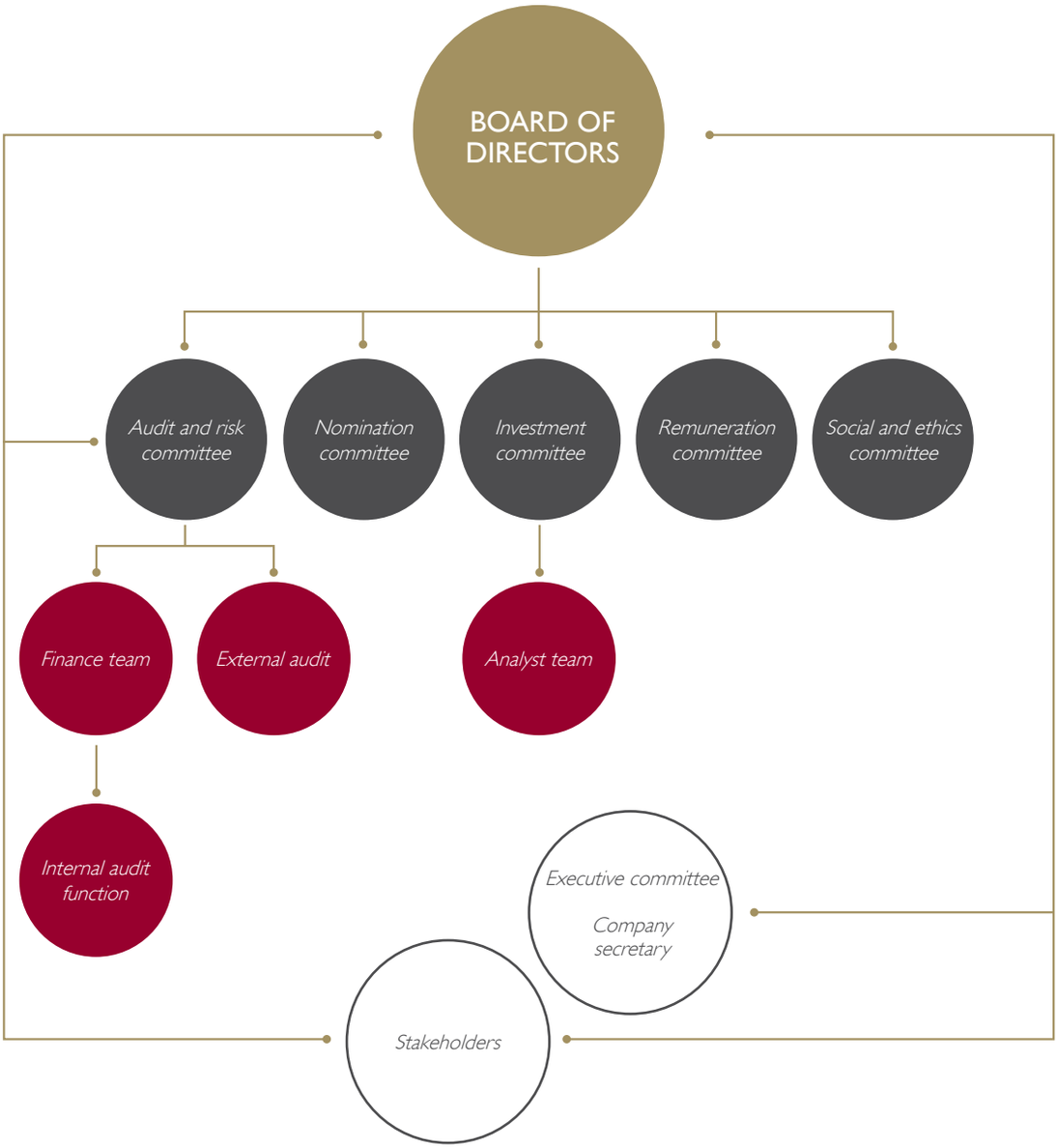
The Board is the focal point of corporate governance for the Group. It takes responsibility and ensures the establishment of structures and processes to create a governance framework for responsible leadership and the sustainable success of the Group. It recognises that strategy, risk, sustainability and performance are all linked.

Risk management



King III is materially applied throughout the Group. The Board ensures the adoption and implementation of the necessary policies in order to strengthen governance within the organisation.

Governance framework



THE BOARD AND ITS COMMITTEES

Changes in composition

Ms Zola Ntwasa was appointed to the board on 8 July 2013. In-line with the Fund's succession program, Mr Willy Ross resigned from the Audit and Risk committee on 1 April 2014. Mr Ross remains on the Board and retains his position on other board committees.

Composition, roles, responsibilities and focus areas

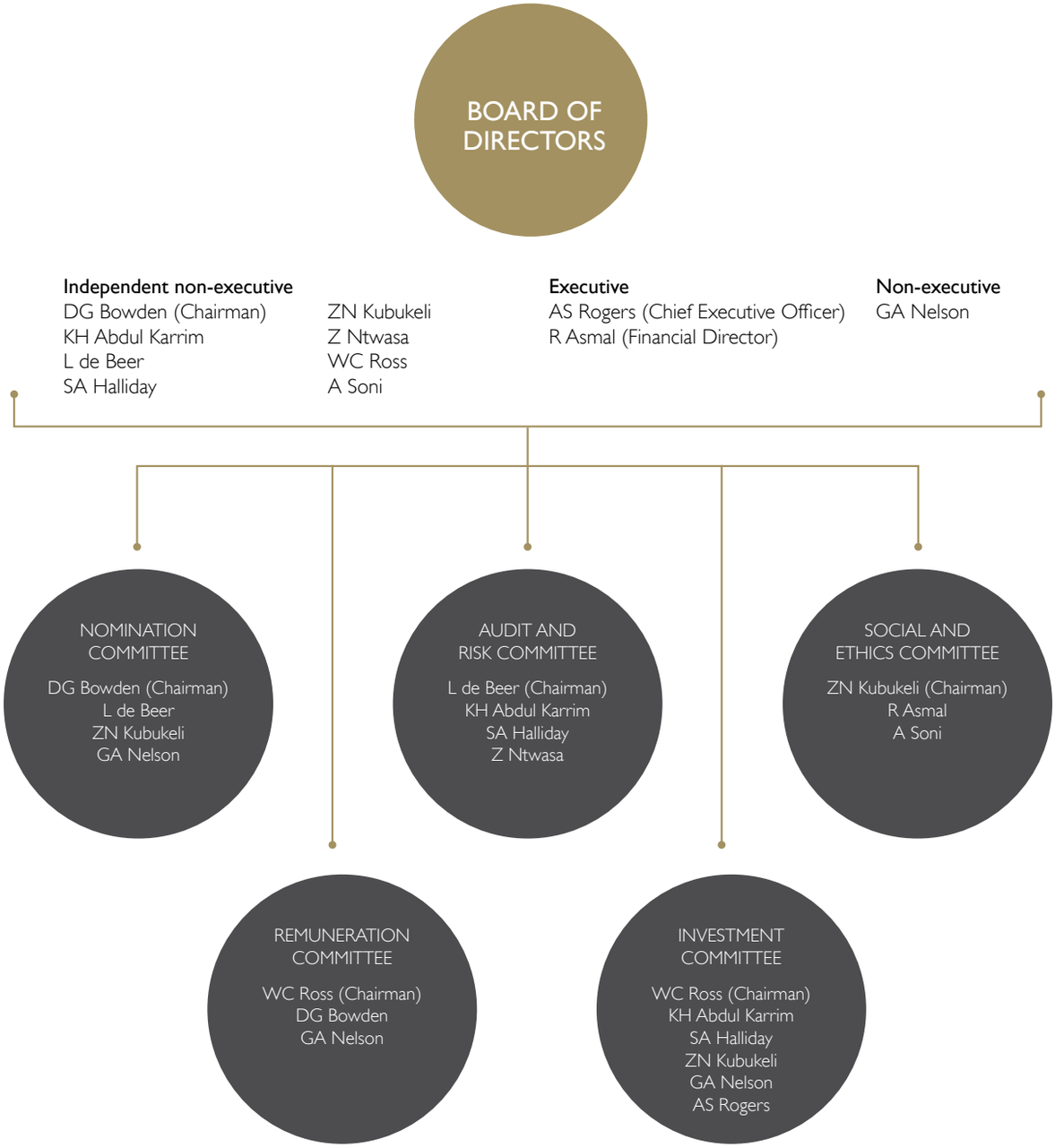
At year-end our Board comprised 8 independent non-executive directors, 2 executive directors and 1 non-executive director.

The Board meets at least four times a year and holds an annual strategy session.

Governance

Risk and sustainability (continued)

Board and committee composition



The Board and every Board Committee operates within its defined terms of reference and the Fund's Memorandum of Incorporation ("MOI"), which was brought in line with the requirements of the Companies Act, 2008 and approved at a General Meeting of Shareholders held on 28 January 2014.

Terms of references are regularly reviewed by the Board in order to ensure compliance with best practice and alignment with changing legislation. The Board and every Board Committee is chaired by a non-executive independent director. Committee chairmen report back to the Board at its quarterly meetings.

	SUMMARY OF ROLES AND RESPONSIBILITIES	MEMBERS	MEETING ATTENDANCE (INCLUDES A STRATEGIC SESSION)
Hospitality Board	**Role and responsibilities of the Chairman** • Responsible for the effective functioning of the Board and its Committees. • Directors have unrestricted access to the Chairman. **Role and responsibilities of the Board** • Accountable to shareholders and acts in their best interest. • Exercises control of the Group and provides leadership and strategic direction. • Monitors the implementation of strategies by management in order to create sustainable results. • Sets the ethical standard of conduct for the Group. • Ensures the implementation of a Group risk management framework. • Monitors the Group's performance. **Key focus areas for 2015** • Further entrench risk management in the organisation. • Consider options available for the capital restructure of the Company. • Manage and monitor shareholder and stakeholder relationships. • Manage and monitor the level of interest rate hedging of the Fund. • Engage an independent party to perform an evaluation of the Board and implement any necessary changes based on the results.	DG Bowden (Chairman)	7 of 7
		KH Abdul Karrim	5 of 7
		R Asmal	7 of 7
		L de Beer	7 of 7
		SA Halliday	7 of 7
		ZN Kubukeli	7 of 7
		GA Nelson	7 of 7
		ZN Ntwasa	7 of 7
		A S Rogers	7 of 7
		W C Ross	7 of 7
		A Soni	7 of 7

Governance

Risk and sustainability (continued)

	SUMMARY OF ROLES AND RESPONSIBILITIES	MEMBERS	MEETING ATTENDANCE (INCLUDES A STRATEGIC SESSION)
Audit and Risk Committee	Role and responsibilities of the Committee • Reviews the Group's financial statements and oversees integrated reporting. • Carries out its statutory duties set out in section 90 of the Companies Act, 2008. • Satisfies itself of the expertise and experience of the Financial Director ("FD") and the Fund's finance function. • Is responsible for deciding if an internal audit function is required and if so, ensures that the internal audit function is independent and is subject to an independent quality review, as and when appropriate. • Considers and recommends the risk policy, framework, and plan to the Board for approval and monitor their implementation; • Assists the Social and Ethics Committee with its responsibility of monitoring ethics by overseeing the Company's fraud and anti-corruption policy and process. The Audit and Risk Committee report can be found on page 90. Meetings and Conduct • The Chairman, Chief Executive Officer ("CEO"), FD and external auditor attend Committee meetings by invitation. • The external auditor has unrestricted access to the Committee and its Chairman. • The external auditors meet with the members of the Committee bi-annually to report their findings to the Committee without members of management in attendance. Key focus areas for 2015 • Enhancement of risk management and the risk identification process. • Expanding the focus of internal audit.	L de Beer (Chairman) KH Abdul Karrim SA Halliday ZN Ntwasa WC Ross (resigned 1 April 2014)	5 of 5 4 of 5 5 of 5 5 of 5 3 of 3

	SUMMARY OF ROLES AND RESPONSIBILITIES	MEMBERS	MEETING ATTENDANCE (INCLUDES A STRATEGIC SESSION)
Investment Committee	Role and responsibilities of the Committee • Considers the viability of capital projects, strategic and operational plans, structuring of borrowings, acquisitions and disposals of property in line with the Company's strategy and objectives and the effect it may have on the Fund. • Authorise and approve transactions and projects and to recommend feasible proposals to the Board for ratification. Meetings and Conduct • The FD and Chief Analyst attend meetings by invitation.	WC Ross (Chairman) KH Abdul-Karrim SA Halliday ZN Kubukeli GA Nelson AS Rogers	6 of 6 5 of 6 6 of 6 6 of 6 6 of 6 6 of 6
Nomination Committee	Role and responsibilities of the Committee • Ensures the Board has the appropriate composition and demographics for it to execute its duties effectively. • Ensures that the appointments of directors are transparent and made through a formal process. • Identify and evaluate potential candidates for appointment to the Board. • Ensures that induction and ongoing training and development of directors take place. • Ensures that formal succession plans for the Board, and management are in place. Key focus areas for 2015 • To enhance succession planning within the Company. • Review annual Committee and Board evaluation processes. • Review new directors' induction process.	DG Bowden (Chairman) L de Beer ZN Kubukeli G A Nelson	1 of 1 1 of 1 1 of 1 1 of 1
Remuneration Committee	Role and responsibilities of the Committee • Oversees the setting of remuneration policies for the Group. • Ensures that directors and management are remunerated fairly and responsibly. • Evaluates the performance of the CEO and executive directors. • Recommends the remuneration of non-executive directors to shareholders for approval. Key focus areas for 2015 • Consider the effectiveness of the long-term incentive scheme. • Consider remuneration principles and alignment thereof with industry best practice.	WC Ross (Chairman) DG Bowden GA Nelson	2 of 2 2 of 2 2 of 2

	SUMMARY OF ROLES AND RESPONSIBILITIES	MEMBERS	MEETING ATTENDANCE (INCLUDES A STRATEGIC SESSION)
Social and Ethics Committee	**Role and responsibilities of the Committee** The role of the Committee is to carry out its statutory duties in compliance with the Companies Act, 2008, and to assist the Board with the oversight of environmental, social and ethical matters relating to the sustainability of the Group. These include:- • Employment equity and transformation. • Monitoring stakeholder relationships. • Human capital management. • Ethics management. • Safety. • Environment. • Health. • Anti-corruption. **Key focus areas for 2015** • Monitor progress on social and human capital management. • Changes to B-BBEE and Sector Codes and impact on the Fund scorecard. The statutory report of the Committee can be found on page 74.	ZN Kubukeli (Chairman) R Asmal A Soni	3 of 4 4 of 4 4 of 4

COMPANY SECRETARY

The Company Secretary is responsible for the statutory administration of the Group and ensures that all regulations and governance codes are observed. She supports the Board in performing its functions and ensures that Board and Committee processes and procedures are implemented. She provides guidance to Directors on governance, compliance and their fiduciary duties.

Directors have unrestricted access to the advice and services of the Company Secretary.

The Company Secretary coordinates the induction programme for newly appointed Directors, as well as the annual Board and Committee evaluation processes.

Rosa van Onselen is the appointed Company Secretary. She has 16 years' experience in company secretariat, which includes 8 years with listed entities.

She is not a member of the Board and the Board is therefore satisfied that an arm's length relationship exists between the Board of Directors, management, individual Directors and the Company Secretary.

The Board has performed an assessment of the Company Secretary and has agreed that she is suitably qualified, competent and experienced to hold her position.

STATEMENT OF INTERNAL CONTROL

The Group has established and maintains financial and operational systems of internal control to provide comfort to the Board, that transactions are concluded in accordance with policies and procedures, are accurately recorded and that the Group's assets are appropriately protected against material losses, unauthorised disposals or acquisitions.

Internal controls over key risk areas are monitored by executive management, and spot tested annually by external audit. Control deficiencies identified are reported to the Audit and Risk Committee and are addressed and the necessary corrective actions taken.

The Board takes responsibility for and is comfortable with the Company's internal controls. At this point in time no written independent assessment of internal controls are obtained as the internal audit function is still in its early stages and requires maturity.

Delegation of authority

The formal delegation of authorities is set out in the terms of reference of each Board Committee. Authority limits to conduct the daily operations of the group have been approved by the Board.

Whistle blowing

A whistle blowing mechanism is in place at Group and hotel operator levels, independently managed by Deloitte. All tip-offs are investigated, followed up and resolved.

Code of Ethics

The ethical character and morals of the Group are set by the Board and flows through to management, who are tasked to lead by example.

The Code of Ethics, adopted by the Board, is underpinned by supporting policies which include the conflicts of interest and independence policies.

Assurance of the Integrated Report

The Board has reviewed and approved the Integrated Report after satisfying itself with of the accuracy and integrity of the report.

The process of Integrated Reporting is still evolving and at this early stage thereof the Group has not sought external verification of the content of the Integrated Report. The external auditor, KPMG Inc. has provided assurance on the Financial Statements as confirmed in the independent auditors report.

Application of King III

In compliance with the guidance note on corporate governance issued by the JSE Limited on 31 January 2013, the report below addresses the application of all the principles contained in Chapter 2 of the King Code and highlights any areas of non or partial compliance.

Every one of the 75 King principles are addressed in the form of a register on the Hospitality website http://www.hpf.co.za.

PRINCIPLE		STATUS	APPLICATION
2.1	The Board should act as the focal point for and custodian of corporate governance	Applied	(Refer to 2014 Integrated Report, page 62 – Governance Report). Annually, a high level overview is undertaken of the Group's governance as part of the annual external audit.
2.2	The Board should appreciate that strategy, risk, performance and sustainability are inseparable.	Applied	(Refer to 2014 Integrated Report, page 62 – Governance Report). The Board control the Group and provides strong leadership and strategic direction, with the purpose that the fulfilment of its strategies will create sustainable results for the Group and its stakeholders. The Board holds an annual strategy session with management. Sustainability matters of the Group and their major service providers are considered by the Board
2.3	The Board should provide effective leadership based on an ethical foundation.	Applied	See principle 1.1
2.4	The Board should ensure that the company is and is seen to be a responsible corporate citizen.	Applied	See principle 1.2
2.5	The Board should ensure that the company's ethics are managed effectively.	Applied	See principle 1.2 and 1.3

Governance

Risk and sustainability (continued)

PRINCIPLE		STATUS	APPLICATION
2.6	The Board should ensure that the company has an effective and independent audit committee.	Applied	(Refer to 2014 Integrated Report, page 62 – Governance Report). The Board has performed an annual assessment of the performance of the audit committee and its chairman. The report of the audit committee can be found on page 90 of the 2014 Integrated Report and confirms that the committee has fulfilled its duties as set out in the Companies Act, its terms of reference and King III.
2.7	The Board should be responsible for the governance of risk	Applied	(Refer to 2014 Integrated Report, page 77 – Risk Report). Key risk areas have been identified by the Board. These risks are assessed and revised as the Group's strategy and the economic and business environment in which it operates change. Management is responsible for constant monitoring of risks and for the implementation of processes to manage risks.
2.8	The Board should be responsible for information technology ("IT") governance.	Partially applied	The Audit and Risk committee oversees the governance of information technology as part of its monitoring of the Group's risk framework. Due to the hotels being in possession of extensive customer information, policies and procedures have been implemented to protect this data. Management is responsible for the monitoring of information technology governance at hotel and head office level and report back to the audit committee on this. The effect of the Protection of Personal Information Act, 2013 on the Group and the treatment thereof is dealt with under the Risk Report on page 81. The IT governance framework will be formalised and reporting on IT governance to the audit committee will be further refinement.
2.9	The Board should ensure that the Company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Partially applied	The Group's Audit and Risk committee assists the Board in ensuring compliance with applicable laws and regulations. Although the Group has no dedicated compliance function, each department takes responsibility for ensuring compliance with relevant laws, codes and standards. Reporting to the Board is being refined through the implementation of the Group's Integrated Risk Management Approach ("IRMA"), as set out under the Risk Report on page 77.
2.10	The Board should ensure that there is an effective risk-based internal audit	Partially applied	(Refer to 2014 Integrated Report, page 90 of the Audit and Risk Committee Report). Internal audit functions have been implemented at hotels and are monitored by management and reported on at least twice a year to the Audit and Risk committee. Currently internal audit focus mainly on operational and financial risks. This will be expanded on in future.

PRINCIPLE		STATUS	APPLICATION
2.11	The Board should appreciate that stakeholders' perceptions affect the Company's reputation	Applied	(Refer to 2014 Integrated Report, page 82 Stakeholder Engagement). The disclosure around stakeholder communication was further developed during 2014.
2.12	The Board should ensure the integrity of the Company's integrated report	Applied	(Refer to 2014 Integrated Report, page 69 – Governance Report).
2.13	The Board should report on the effectiveness of the Company's system of internal controls	Partially applied	(Refer to 2014 Integrated Report, page 69 – Governance Report). The Board is comfortable that internal controls are in place. At this point in time no written independent assessment of internal controls are obtained.
2.14	The Board and its directors should act in the best interests of the Company.	Applied	Directors act within the Company's terms of reference and code of ethics. The Company Secretary ensures that the directors are aware of their fiduciary duties. Directors declare any conflicts of interest they may have in any particular transaction and/or decision and are recuse from all discussions and involvement pertaining to such transactions and/or decisions. Directors may only deal in the company's securities in accordance with the Group's share dealing policy and directors' independence is assessed annually.
2.15	The Board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Companies Act	Applied	(Refer principle 2.14). The Audit and Risk committee and Board monitor the solvency and liquidity and going concern status of the Group quarterly. Management constantly monitors debtor levels and report thereon quarterly to the Audit and Risk committee. The Group has to remain within specific financial covenants in terms of facility agreements in place with its bankers. Management constantly monitors risks and report thereon to the Audit and Risk committee. (Refer to 2014 Integrated Report, page 77 – Risk Management). The Audit and Risk committee reports quarterly to the Board.
2.16	The Board should elect a chairman of the Board who is an independent non-executive director. The CEO of the company should not also fulfill the role of chairman of the Board	Applied	(Refer to 2014 Integrated Report, page 64 – Governance Report)
2.17	The Board should appoint the Chief Executive Officer and establish a framework for the delegation of authority	Applied	The Chief Executive Officer has been appointed by the Board.
2.18	The Board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	Applied	(Refer to 2014 Integrated Report, page 64 – Governance Report)
2.19	Directors should be appointed through a formal process	Applied	(Refer to 2014 Integrated Report, page 67 – Governance Report)
2.20	The induction and ongoing training and development of directors should be conducted through formal processes	Applied	(Refer to 2014 Integrated Report, page 67 – Governance Report)
2.21	The Board should be assisted by a competent, suitably qualified and experienced Company Secretary	Applied	(Refer to 2014 Integrated Report, page 68 – Governance Report)
2.22	The evaluation of the Board, its committees and the individual directors should be performed every year	Applied	(Refer to 2014 Integrated Report, page 65 – Governance Report)
2.23	The Board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	Applied	(Refer to 2014 Integrated Report, page 65 – Governance Report)

Governance

Risk and sustainability (continued)

PRINCIPLE	STATUS	APPLICATION
2.24 A governance framework should be agreed between the Group and its subsidiary Boards	Applied	The same governance structure has been adopted by each of the Hospitality group of companies. The Group structure can be found on page 7 of the 2014 Integrated Report.
2.25 Companies should remunerate directors and executives fairly and responsibly	Applied	(Refer to 2014 Integrated Report, page 75 – Remuneration Report). Disclosure in the remuneration report was further developed during 2014.
2.26 Companies should disclose the remuneration of each individual director and certain senior executives	Applied	The remuneration of each individual director and any prescribed officer is disclosed in this Integrated Report. (Refer to 2014 Integrated Report, page 127).
2.27 Shareholders should approve the Company's remuneration policy	Applied	The Group's remuneration policy is proposed to shareholders for a non-binding advisory vote at the AGM. The Group's remuneration policy was endorsed by shareholders at its prior AGM. Shareholders have requested more detailed information and disclosure on the Group's remuneration policy. This was considered and included in the 2014 integrated annual report on page 75.

Ernst Snyman – Chief Risk Officer

Hospitality applies the mandatory principles contained in paragraph 3.84 of the JSE Limited Listings Requirements as follows:

REQUIREMENT	PRINCIPLE	APPROACH
3.84(a)	There must be a policy detailing the procedures for the appointment to the Board. Appointments must be formal and transparent and a matter for the Board as a whole, assisted where appropriate by a Nomination Committee. If a Nomination Committee is appointed, such committee must only constitute non-executive Directors and the majority must be independent. The committee must be chaired by the Chairman of the Board.	The policy for Board appointments is set out in the terms of reference of the Nomination Committee. Appointments to the Board are dealt with in a formal and transparent manner by the Board as a whole. Appointments are made on recommendations by the Nomination Committee, following an assessment of any prospective director's qualifications, abilities and experience so as to make a meaningful contribution to the Board and its committees. The composition of the Committee is set out on page 64. The Committee is chaired by the chairman of the Board.
3.84(b)	There must be a policy evidencing a clear balance of power and authority at Board level to ensure that no one director has unfettered powers.	Our Board Charter and MOI demonstrates that there is a clear balance of power and authority at Board level and that no one director has unfettered powers. Decisions, if not unanimous, are taken by a simple majority with one vote per director. The Chairman does not have a deciding vote.
3.84(c)	Issuers must have a CEO and a Chairman and these positions must not be held by the same person. The Chairman must either be an independent director or the issuer must appoint a lead independent director as defined in the King Code.	The CEO and Chairman positions are held by different individuals. The Chairman is an independent non-executive director.
3.84(d)	Issuers must appoint an Audit Committee in compliance with the King Code.	Hospitality has a combined Audit and Risk Committee. Its composition is set out on page 64. The committee currently has four members all of whom are independent non-executive Directors, as set out in the King Code. The Chairman of the Board is invited to attend committee meetings.
	Issuers must appoint a Remuneration Committee in compliance with the King Code.	Hospitality's remuneration committee has three members, two of whom are independent non-executive Directors.
	Where appropriate, issuers must appoint a Risk and Nomination Committee.	Hospitality has a combined Audit and Risk Committee and a Nomination Committee.
	The composition of such committees, a brief description of their mandates, the number of meetings held and any other relevant information must be disclosed in the integrated annual report.	Brief descriptions of the mandates of these committees and the number of meetings held during the year are available on pages 66 and 67.
3.84(e)	Brief CV of each director standing for election or re-election must accompany relevant notice of meeting.	Although the notice of Hospitality's Annual General Meeting is not contained in the integrated report, brief CV's of every director can be found on pages 38 and 39.
3.84(f)	Capacity of Directors in relation to executive, non-executive and independent must be categorised and disclosed in the relevant documentation.	Board and Committee composition can be found on page 64. The composition of our committees is in accordance with the requirements of the Companies Act and King III.
3.84(g)	Issuers must have a full-time executive financial director.	Hospitality has a full-time Financial Director employed.
3.84(h)	The audit committee must consider on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director and report thereon in the integrated annual report.	Our Audit and Risk Committee annually considers and satisfies itself of the appropriateness of the expertise and experience of the Financial Director and finance team and has reported on its findings in its Audit and Risk Committee report on 90 of the annual financial statements.

Governance

Risk and sustainability (continued)

REQUIREMENT	PRINCIPLE	APPROACH
3.84(i)	The provision deals with the competence, qualifications and experience of the company secretary and the Board of Directors' responsibility in relation thereto.	The Company Secretary's competence, skills and experience and the Board's assessment of her abilities to carry out her responsibilities are set out on page 68.
3.84(j)	The provision deals with the arm's length relationship between the Board of Directors and the Company Secretary and the Board of Directors' responsibility in relation thereto.	Refer to page 68 where it is stated that the Board is comfortable that the Company Secretary maintains an arm's length relationship with the executive team, the Board and the individual Directors.

Report of the Social and Ethics Committee

The Group through its Social and Ethics committee endeavours to ensure that its ethical tone is shared and implemented by its contracted hotel operators and aims to act responsibly in the societies in which it operates. The Group invests in its staff and in the communities in which it functions. Focus has been placed on reducing the impact of the Group on natural resources with the implementation in 2013 of water and energy-saving programmes across its property portfolio.

Communication with its stakeholders is open and honest and without prejudice and is supported by a disclosure of information policy.

Whistle-blowing and anti-corruption procedures are in place. Refer to page 69.

The composition, role and responsibilities of the Committee is set out under "The Board and its Committees". More on the matters within the committee's mandate can be found on page 68.

The Committee is required to report to shareholders on matters within its mandate at the Company's AGM. Any specific questions in this regard may be submitted to the Company Secretary prior to the AGM.

Company Secretariat and Human Capital – Ziyaad Laher, Rosa van Onselen and Ashleigh Christie

Remuneration *and* performance

REMUNERATION PHILOSOPHY

Hospitality's philosophy is to remunerate fairly, responsibly and competitively in order to:

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

ROTATION OF DIRECTORS

One-third of all executive and non-executive directors retire from office by rotation at the Company's Annual General Meeting and if eligible may offer themselves for re-election.

EXECUTIVE DIRECTORS

Service contracts and terms of employment

The Chief Executive Officer and the Financial Director are both full-time salaried employees of HPF Management (Pty) Limited, a wholly owned subsidiary of Hospitality. Their employment contracts are in accordance with the Fund's standard terms and conditions of employment and subject to three and two months' notice periods, respectively, and do not include restraints of trade.

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

REMUNERATION

Guaranteed remuneration

Guaranteed remuneration includes base salary structured on a cost-to-company basis and benchmarked against the industry and independent market data. For purposes of comparisons to market, the median level of remuneration for a specific position is used as the point of departure.

The Remuneration Committee reviews the guaranteed packages for executive directors, taking into consideration the rate of inflation, affordability, the outcome of benchmarking, the individuals' experience and current levels of performance.

The Remuneration Committee reviewed the guaranteed remuneration of the executive directors and approved a general increase of 7,5% to guaranteed remuneration with effect from 1 July 2014. None of the staff employed by HPF Management (Pty) Limited qualify as prescribed officers in terms of the Companies Act, 2008.

Details of the guaranteed remuneration paid to the executive directors during the 2014 financial year are set out on page 127 of this report.

SHORT-TERM INCENTIVES

Short-term incentives are offered to all executives as an annual bonus payment and are calculated as a percentage of annual guaranteed remuneration, capped at two-thirds of that guaranteed remuneration. The criteria for payment of short-term incentives are divided between Company financial and operational and Personal KPI/Company non-financial components.

FINANCIAL AND OPERATIONAL COMPONENT

For executive directors the financial and operational component comprises 60% of the bonus scorecard. Calculation of this element is based on the Company's actual performance relative to predetermined targets for achieving distribution (35% of 60%), exceeding distribution (35% of 60%), hotel budgeted gross operating profit margins (15% of 60%) and Fund expenses (15% of 60%).

PERSONAL KPI/COMPANY NON-FINANCIAL COMPONENTS

Personal KPIs comprise 40% of the annual bonus scorecard and is measured on meeting personal predetermined targets, which are agreed and approved by the Remuneration Committee

Annual bonus payments made to executive directors are set out on page 127 of this report.

LONG- TERM INCENTIVES

The Hospitality Employee Incentive Trust ("the Trust") was implemented in 2013. Through the Trust, tranches of B-linked units are acquired in the open market and are allocated to beneficiaries as trust units. To date, B-linked units amounting to R10 million have been acquired and allocated to executive directors and management. The beneficiaries and their respective allocations are agreed by the Remuneration Committee. The Trust units vest in equal parts over a period of three years with the first tranche vesting on 30 September 2016. At the time of vesting, beneficiaries have the option to take up their portion of B-linked units at cost, plus outstanding loan interest, less distributions payments received toward loan payments. The current Trust units were acquired during 2013 at an average cost of R5,07 each.

Remuneration *and* performance *(continued)*

Details of Trust units allocated to executive directors are set out on page 134 of this report.

NON-EXECUTIVE DIRECTORS

Service contracts and terms of employment

Non-executive directors are not subject to fixed terms of employment other than the conditions contained in the Company's MOI and, as such, no service contracts have been entered into with the Company.

Hospitality's remuneration mix for non-executive directors comprises a basic fee in the form of an annual retainer in respect of their membership of the Board, Audit and Risk and Social and Ethics Committees and if applicable a per meeting fee for actual attendance for the members of the Investment, Nomination and Remuneration Committees. Hourly fees may also be paid, subject to prior Board approval, to non-executives for ad-hoc work which may be required of them.

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

Non-executive directors' fees are approved in advance by shareholders by special resolution at the Company's Annual General Meeting, at intervals of no longer than two years at a time.

Remuneration

At the 2012 and 2013 AGMs shareholders approved directors' fees which represented a 6% inflationary increase to the prior year, with the exception of the fees approved in 2013 for the chairman of the Board (15% increase to 2012) and the Audit and Risk Committee (32% increase to 2012), as a result of their enhanced scope of responsibilities and increased time spent in meeting these obligations and the fees approved in 2012 for the newly constituted Social and Ethics Committee.

The Non-executive directors' fees proposed for the 2015 financial year were arrived at after an internal benchmarking exercise of the industry was performed. The exercise revealed that the fees for 2014 were significantly below market average. Increased fees were presented to the Remuneration Committee and in consideration thereof, the guide on Non-Executive Directors' Fees issued by The Institute of Directors in August 2014 and PwC's Non-Executive Directors' Practices and Fees trends report released in January 2014 were also used as measures. Consideration was also given to market norms and practices and the ability of the Company to attract and retain non-executive directors with the appropriate skills and experience.

The fees were also considered and deliberated by the Board, with the outcome being that the increases were considered fair and reasonable and are reflective of market norms as well as the efforts and time contributions made by the non-executive members of the Board.

The following proposed fees for 2015 will be presented to shareholders for approval at the 2014 AGM:

	CHAIRMAN R's	MEMBER R's
Board (per annum)	300 000	200 000
Audit and risk committee (per annum)	130 000	80 000
Investment committee (per meeting)	12 000	10 000
Nomination committee (per meeting)	6 500	5 500
Remuneration committee (per meeting)	6 500	5 500
Social and ethics committee (per annum)	43 000	34 000

The proposed fees represent an overall increase of 26,8% to the prior year.

Details of remuneration paid to non-executive directors can be found on page 127 of the Integrated Report.

Risk management

Hospitality is of the view that effective risk management is essential to its sustainable business performance and the realisation of its strategic and operational objectives. During the year under review, we commenced with the implementation of a Group-wide risk management framework.

The initial focus was to establish risk governance and management in accordance with chapter 4 of the King Code of Governance Principles for South Africa 2009 ("King III"). Thereafter we combined the implementation of the risk management process with an intensive risk awareness and skills training programme at asset level. This report reflects the position of our integrated risk management approach as at 30 June 2014.

THE GOVERNANCE OF RISK

The Board has overall responsibility for the governance of risk. The Audit and Risk committee is mandated to ensure that the responsibilities delegated to the executive team are carried out in accordance with the risk management plan approved by the Board. The Audit and Risk committee also ensures that risk assessments are carried out on a continual basis and that risks are being continually monitored by management.

The Audit and Risk committee has overseen the establishment of a comprehensive risk management system.

The three tiers of the Fund's risk governance are illustrated in the graphic below:

BOARD	• The Board is responsible for the governance of risk. • The responsibilities are set out in the Board Charter, approved by the Board.
AUDIT AND RISK COMMITTEE	• The Audit and Risk Committee is mandated to oversee the management of risk. • The responsibilities are set out in the Audit and Risk Committee terms of reference, approved by the Board.
RISK MANAGEMENT COMMITTEE	• The Risk Management Committee oversees the implementation of the risk management plan and ensures that risk management is integrated into ongoing management activities. • The responsibilities are set out in the Risk Management Committee terms of reference, approved by the Board.

THE MANAGEMENT OF RISK

A formal documented risk management plan has been developed by management and approved by the Board. The risk management plan sets out in detail how the risk policy is being implemented. The successful implementation and execution of the risk management plan will transform risk management from an ad hoc system to an integrated system, designed to assist in achieving sustainable growth in a competitive environment.

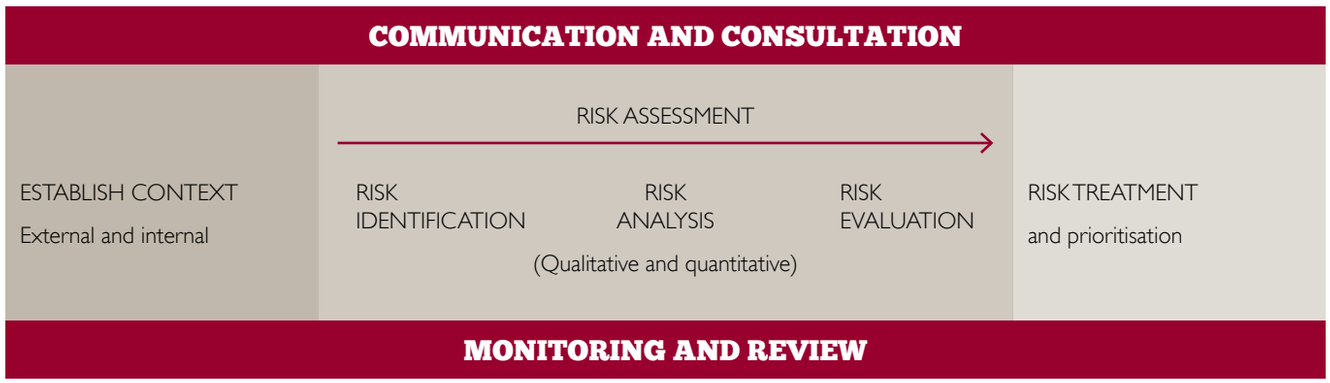
The Integrated Risk Management Approach ("IRMA")

The IRMA is being implemented throughout the entire Group. It involves the identification of uncertainty, the threats and opportunities created by it and analysing it in a systematic way using a framework that assists in anticipating risk. The IRMA is primarily based on the principles and guidelines of the ISO 31000 Risk Management Architecture ("ISO 31000") adapted, where necessary, to the needs of the organisation and complemented, where appropriate, by the Risk and Insurance Management Society ("RIMS") Risk Maturity Model ("RMM"). The IRMA is structured, systematic and is designed to:

Risk management (continued)

- create and protect value in the context of the social and cultural factors facing the organisation;
- suit the environment of each business area and integrate with the business operations;
- support decision-making based on best available and timely information;
- deal with uncertainty by being dynamic, responsive, and iterative;
- facilitate continual improvement and develop organisational capacity; and
- be transparent, inclusive, and relevant.

The following graphic illustrates the IRMA risk management process:



In support of communication and consultation, risk management training sessions were held at all hotels. The purpose of these training sessions was to place risk management in context and to train delegates in the essential concepts and methods involved in the risk assessment process.

The roll out of the IRMA process commenced in May 2014 and implementation has started at 10 of the hotel assets. The remaining hotels are planned for completion before the end of September 2014. The risk assessment at the level of Hospitality Property Fund Limited, HPI Management (Pty) Limited and HPF Properties (Pty) Limited will be completed by end of 2014. Once the initial risk assessment has been completed, risk profiles will be developed at fund, portfolio and individual asset level.

The services of a Chief Risk Officer (CRO) have been contracted to ensure the process receives ongoing dedicated attention. Once the risk assessment phase is complete a risk treatment plan for all significant risks will be developed, and implemented on a priority basis. The systems of internal and operational control will then be implemented to ensure that risks are being monitored by management. The controls will be designed to manage risks within the approved risk appetite and provide reasonable, but not absolute assurance concerning the achievement of strategic, operational and financial objectives.

RISK DISCLOSURE

At the time of this report, the following top risks were identified at Fund level. They have been listed in no particular order:

TOP RISKS IDENTIFIED AT FUND LEVEL – JUNE 2014

RISK THEME	RISK DESCRIPTION	CURRENT RISK CONTROLS	FURTHER MITIGATION
Economic conditions	Volatility in global and domestic economic conditions has a direct impact on trading volumes at the hotels and profitability.	Diversification of business between domestic and international and across different markets segments: corporate, government, conferencing and leisure.	Increase in sales and marketing efforts in the depressed market. The sale of non-core hotels.
	Government and municipality allowing deterioration of infrastructure outside major metropolitan areas, including roads, will negatively impact guest numbers with consequential revenue losses.	Continuous analysis of marketing conditions to identify weaknesses, formulate appropriate strategies and implement action plans as early as possible.	
Access to financing and liquidity and interest rate risk	On expiry of loans, refinancing is subject to financial institution internal credit policies and risk assessment of business.	Debt facilities have been spread over varying periods. Alternative financing options are obtained other than traditional bank financing. Facilities are secured and loan agreements signed at least four months prior to expiry of loans. The Fund continuously assesses the portion of its debt that is subject to fixed interest rates through interest rate swap structures. Domestic Medium Term Note Programme launched with secured and unsecured notes issued. Maturity profile tabled at Audit and Risk Committee quarterly and renewal of facilities to be concluded three months prior to expiry.	
Investment/acquisition risk	Acquiring a property with undisclosed inherent defaults including structural faults, land and other claims against the property and/or other regulatory non-compliances.	Formal due diligences are performed by expert service providers prior to final acquisition.	
Safety of guests and staff at hotels	Possible injury, death or disability of guests or staff members. Negative implications on the hotel brand and property.	Suitably qualified security companies are appointed at all hotels. Preventative maintenance programmes are supervised by the Fund's Chief Engineer. Property Health Safety and Environmental (HSE) risk surveys are conducted annually and concerns are addressed. Hotel OHSACT committees are in place at all hotels. Adequate insurance cover is in place to cover public liability claims. Property risk-based audits are conducted annually by TEMI Risk management. International hotel brands have additional requirements to assess fire, life, safety risk.	
Destruction or damage to property	Partial or total destruction of hotel and infrastructure results in hotels not being operational with the resultant loss of income to tenant and rental income to the Fund.	Assets are insured for replacement cost, business interruption and political riot with reputable underwriters with a strong credit rating Insurance policies are in place and reviewed 1 July annually.	

Risk management (continued)

RISK THEME	RISK DESCRIPTION	CURRENT RISK CONTROLS	FURTHER MITIGATION
Choice of tenant, hotel manager/operator	Potential loss of revenue due to poor sales and marketing strategies or properties not being adequately maintained affecting guest experience and causing brand reputation damage.	Maintaining strong relationships with major hotel brands, both locally and internationally, to ensure the allocation of the correct brand and appointment of the most appropriate hotel manager for a specific property. Diversification of hotel management companies. Continuous management of the operators by the Fund's executive team to ensure that revenues are maximised, guest service levels are acceptable and properties are well maintained. Quarterly strategic meetings with regional/head offices of brands and management companies.	
Capital structure and volatility of B-linked units	Due to variable rentals affected by the cyclical nature of the hotel industry and the 5% growth in distributions on the A-linked unit, the distribution and share price of the B-linked unit is highly volatile.	Options to amend the capital structure to be explored to de-link the A and B-linked units without compromising the rights of the existing A-linked unit holders and creating stability going forward for the B-linked unit holders.	Deloitte Corporate Finance has been appointed to advise on the most suitable and sustainable capital structure. Executive management have been actively involved in engaging with major shareholders.
Increase in municipal utility costs and rates and taxes	An increase in utility and rates and taxes costs have a direct impact on hotel profitability and thus lower rental income. These increases cannot be passed on to guests as room rates are determined by market conditions.	Online monitoring systems for electricity consumption installed at all hotels. Heat pumps and LED lighting programmes complete. Municipal property valuation monitoring processes in place with professional consultants.	
Skills retention and succession planning	Shortage of suitably skilled staff at hotel level are a continuous challenge for operators and potentially impacts guest service levels and profitability. Retention of skilled staff at Fund management level and a definitive succession plan for key staff is critical to ensuring optimal and uninterrupted management of the Fund.	Remuneration policies are to be in line with market to ensure retention of key staff. A Hospitality long-term share incentive scheme has been finalised. The nomination committee ensures that appropriate succession plans are in place for key executives.	

RISK THEME	RISK DESCRIPTION	CURRENT RISK CONTROLS	FURTHER MITIGATION
Regulatory and legislative changes	Department of Home Affairs regulatory changes regarding Visas for foreign travellers will negatively impact tourism, MICE (meeting, incentives, conferencing, exhibitions), leisure travellers. Changes in labour legislation and the impact on the operations as well as increased costs associated therewith. Increased compliance ito POPI and CPA. Changing legislation regulation foreign land ownership.	Overall compliance procedures. Implementation of the necessary changes required by the labour legislation. Contiuous monitoring of the tourism market.	Increase in sales and marketing efforts in the depressed market.
REIT regulations	Meeting the JSE Limited Listings Requirements for continued listing as a REIT.	Continous measurement against continuing obligations for REITs.	The JSE Limited granted REITs with a linked unit structure extension to 1 July 2015 to cancel existing debentures in order to comply with the 60% REITs gearing test. Hospitality is engaging with major shareholders and the JSE in this regard and will produce a circular and general meeting notice in due course.
Capital cost of maintaining assets	Due to the capital intensive nature of the Fund's assets the cost of maintaining the Fund's assets are high in comparison with other REITS. Any lack in maintaining properties to their star grading standards will results in loss of profits and will have a reputational impact.	Additional DMTN issue concluded in April 2014 to fund capex for FY 2015. Reviewing rolling 12 month cash flow at Audit and Risk Committee meetings.	
Tenant default	Loss of income due to vacancy, recoverability of arrear rentals and non-letting of vacant properties.	Monthly meetings held to review tenants financial performance and continuous engagement to identify arrears. Relationships with major hotel operators are in place to secure alternative tenants for vacant properties. All deposits and bank guarantees in place.	Tenant diversification.

Shareholder communication & stakeholder engagement

The Board maintains honest and transparent communication with its stakeholders. Management engages regularly with major shareholders and stakeholders to ensure open channels of communication.

The investor relations programme that was implemented in 2014 was extended in the period under review. A site visit, attended by real estate investors and analysts was hosted to key properties in the Western Cape, using these interactions to provide deeper insights into the differentiators of Hospitality's business model within the real estate sector. Previously, the Fund's management team only met with key shareholders at the interim results announcement stage. However, in February 2014, a webcast was hosted, providing a wider audience of investors the opportunity to engage with management. The Fund is also extending its investor outreach to introduce new potential investors and improve liquidity in the longer term.

Hospitality's staff complement was increased during the period under review, in order to comply with increased legislative and governance requirements and in order to manage its growing fixed and variable lease component. Accordingly, the number of people directly employed by Hospitality increased from 16 to 20.

The Fund recognises the need for engagement with its "indirect employees" being the staff employed by its hotel managers at its 26 properties. Hospitality recently launched a quarterly newsletter for distribution to all hotel staff. Hospitality management also engages with hotel staff on a one-on-one basis as part of its active management philosophy.

Identification of stakeholder groups and methods of engagement are set out below:

STAKEHOLDER GROUPS	ENGAGEMENT APPROACH AND MECHANISMS	KEY TOPICS AND AREAS OF CONCERN
Direct: Fund stakeholders		
Shareholders, bankers, bond holders and financiers	Presentations, integrated annual reports, results announcements, SENS releases, site visits, road shows and direct engagement	Distribution growth, future prospects and compliance with terms of loan agreements
Tenants: Hotel manager and Brand	Monthly and quarterly face-to-face meetings for each property to obtain updates on a wide variety of matters	Absolute and relative performance, benchmarking and strategising, trading environment
Professional suppliers and business partners including legal, accounting, architects, engineers, quantity surveyors and interior designers	Ad hoc and formal meetings, reports, letters and emails	Future business opportunities, relationships, project performance, level and standard of service
Staff	Daily interactions	Performance and daily responsibilities, compensation and professional development
Governments and regulatory authorities	Formal meetings, written reports and regulatory submissions	BEE, health and safety, labour matters and taxation
Indirect: Hotel stakeholders		
Consumers	Sales and marketing initiatives, direct interactions, campaigns	Quality and value for money, consistent service delivery, BEE and environmental compliance
Unions	Direct engagement	Wage settlements and working conditions
Suppliers of consumables	Direct engagement, tenders, centralised procurement	Price and cost of goods, quality, service and payment terms
Staff	Direct interactions, electronic communications, employee forums	Working conditions, salaries and benefits, training and development, safety
Communities and education institutions	Direct engagement	Sponsorships, grants and bursaries
Local authorities	Direct, telephonically and through legal counsel	Lack of service delivery, maladministration, incorrect billing and incorrect valuations

Through its membership of industry bodies such as the SA REIT Association and South African Property Owners Association (SAPOA), Hospitality engages regularly with other industry participants on current issues impacting the industry. The Fund's management team is actively participating in local and international industry events and conferences, which is improving the awareness of its value proposition with long term benefits for all stakeholder groups.

Social and environmental *matters*

As stated in previous years Hospitality's activities have a low environmental impact, however the Fund continues to recognise its responsibility for the impacts that it has on its surrounding communities and evaluates mechanisms to reduce environmental impacts.

The reduction of Hospitality's environmental impact and carbon foot print remains a focus but the Fund recognises that this is a dynamic target. Continual changes and adjustments are necessary to achieve these objectives, but Hospitality is committed to integrating leading environmental practices and sustainability principles into the hotels, thereby ensuring balance between our economic, social and environmental responsibilities.

Hospitality continues to work on the following initiatives:

Energy consumption

- Strive to reduce consumption of natural resources through the responsible use of electricity, gas and water.

Water consumption

- Work to minimise the consumption of water through guest usage, laundry, hotel consumption and irrigation.

Waste water recycling

- Initiate ways of recycling sewerage, laundry and kitchens grey water.

Emissions for air quality and pollution

- Actively seek to minimise pollution, emissions and effluents emanating from our operations.

Waste management and recycling

- Work to minimise the amount of waste produced by the hotels through reducing, reusing and recycling programmes (paper, glass and cans, both steel and aluminium) and the adoption of a "zero waste" policy.

General

- Ensure that at all times, we identify, evaluate and comply with local, regional or national environmental laws and regulations applicable to our operations within the areas in which we conduct our business.
- Manage biodiversity through the protection of flora, fauna and land associated with or impacted by our operations.

There are various environmental programmes in place at the Fund's hotels, which are driven in line with the hotel operating companies' initiatives:

- Green Engage (Intercontinental Hotel Group)
- Responsible Business Programme (Carlson Rezidor).
- Planet Bold (Environmental Sustainability Programme) (Extrabold)
- 30/20 by 20 (Starwood Hotel and Resorts)
- Hotel Environmental Plan (Protea Hotels)

The Arabella Country Estate remains the only ISO 14001 accredited golf estate in Africa. This requires compliance with international standards of sustainable environmental management and requires undergoing annual environmental audits of the Estate's performance. A particular project conducted in this financial year was a R10 million investment in the irrigation and pump system at Arabella Golf Club. A state of the art irrigation system supplied by Rain Bird and installed by T&G Irrigation delivers additional coverage to the playing areas of the golf course adding conditioning and playability improvements to this highly rated golf course (Number 1 in the Western Cape and number 5 in South Africa). Simultaneously the programmability of the system allows for irrigation during off peak hours for electricity consumption and a 40% decrease in the amount of water required to irrigate a larger area. Hospitality is grateful for the expertise and commitment of the Project Team and looks forward to an incrementally improving situation over time on the golf course.

Energy Consumption:

At the Fund's hotels, only electricity that is provided by Eskom or the local municipalities is used. The majority of energy consumption is attributable to the heating of clarifiers, air-conditioners, lifts and lighting purposes. Energy usage at the Fund's hotels is largely determined by occupancy levels and the Fund continues to actively seek alternative methods of reducing its energy consumption. These measures include the introduction of awareness campaigns among guests and employees. The Fund has determined that the measurement of energy consumption should be based on a "per room sold" basis to enable a meaningful comparative to be established over time between our own hotels and the industry at large.

The Fund continued to register properties with Eskom's Demand Side Management Programmes until this product was discontinued by Eskom and has implemented various projects such as the heat pumps and energy efficient light fitting replacement at Westin Cape Town, Arabella Hotel & Spa and the Holiday Inn Sandton.

The Magnet Group continues to oversee the implementation of the heat-pumps and illumination projects identified at those hotels that have the most significant kWh savings for the hotels.

In addition to the above through various illumination projects, all public areas and essential lighting was replaced with energy efficient lamps, a total of more than 36 000 light fittings were replaced throughout the portfolio. A second exercise undertaken was the installation of motion sensor switched lighting in low volume traffic areas such as basements and storage areas.

Social and environmental *matters* (continued)

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

ELECTRICITY USAGE

Average kWh per room night sold

	ECONOMY	MID SCALE	LUXURY
YE June 2014	38.36	45.88	59.97
YE June 2013	44.16	40.39	107.50
Change 2013/2014	(13.1%)	13.6%	(44.2%)
YE June 2012	49.07	51.26	116.02
Change 2012/2013	(10.0%)	(21.2%)	(7.3%)

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 newly appointed specialist monitoring company, Power Metering Technics (PMT). PMT were appointed in 2012 to improve on the existing system and assist the Fund's executive to improve measures to even further reduce the energy consumed at the properties. Best-practice benchmarks were established and the following actions continue to be implemented by the hotel management companies:

Fund initiatives:

- Hot-water calorifiers are set to heat water only when the capacity of the newly installed heat pumps have been reached and the demand for hot water is at its highest. Boiler temperatures are set to minimum levels.
- Having fully insulated systems ensures hot water is available at all times and heat loss is minimised.
- Air-conditioning plant is controlled through timers. 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 hotel rooms. This allows shutdown of all non-essential electrical items when rooms are unoccupied.
- Where possible, the discharged cold air of the heat pumps has been circulated into the air handling unit plant rooms for distribution to assist the chillers.
- Where central air-conditioning chiller plants are installed, the utilisation of heat generated through the running of the plant is used to heat and maintain hot water temperatures through plate heat exchangers.
- Administration offices, boardrooms and conference centres have been 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 the switching off of lights in storage areas and bedrooms.
- The installation and maintenance of power factor correction equipment.
- The operating hours of the hotel's on-site laundries have been synchronised to low electricity demand periods.
- Pool blankets cover the heated swimming pools.

WATER CONSUMPTION

Most properties are implementing a water management strategy as part of a broader initiative to minimise waste. The majority of 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 also mainly via borehole water or "grey water" plants (recycled waste). As with energy consumption, the Fund measures water consumption on a 'per property per room night sold' basis. This enables comparative reports and benchmarking.

Average litres per room night sold.

	ECONOMY	MID SCALE	LUXURY
YE June 2014	190	412	1 294
YE June 2013	536	441	2 252
Change 2013/2014	(64.5%)	(6.7%)	(42.5%)
YE June 2012	504	496	2 264
Change 2012/2013	6.3%	(11.1%)	(0.5%)

Fund initiatives

Outputs of water purification plants are tested each month by independent contractors and results retained and acted upon. PMT 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 being adopted include:

- Guest-awareness programmes to reduce laundering of linen and towels.
- Toilets have been fitted with dual-flush mechanisms to reduce water consumption and motion sensors on the automated flushing urinals were adjusted to operate only when needed.
- Shower heads and taps have been fitted with aerators to simulate high flow rates, albeit at a significantly lower rate of usage.
- Showers have systematically replaced baths in the new developments.
- Laundry facilities were centralised and the use of laundry equipment is carefully controlled by housekeepers to ensure optimal loading of the machines.
- Garden irrigation is timed to take place outside of the heat of the day to reduce loss through evaporation.
- The use of "water wise" indigenous flora in all landscaping and plant replacement projects.
- Programmes are in place for the continual removal of invasive alien plant species.
- Installation of water metering system to reduce water consumption through the detection of leaks and high usage areas.

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:

- Biodegradable and environmentally friendly chemicals are used in all kitchen, cleaning and laundry operations.
- Guest supplies (soaps, shampoo, foam baths, conditioners and lotions) are biodegradable.
- 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.
- 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 chemical 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 with regards to recycling initiatives:

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

BIODIVERSITY

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

Mount Grace

- Many of the invasive plant species were also removed and proper attention given to the replacement of indigenous material.

Arabella

- Arabella Country Estate is located within the transitional zone of the Kogelberg Biosphere Reserve and the adjacent Bot River Lagoon, which is a designated buffer zone to the Biosphere Reserve. Accordingly, the principles of sustainable development and protection of the natural environment on the actual property and those adjacent to it are prioritised and the Fund has a number of initiatives in this regard.
- The Estate assists the Western Cape Nature Conservation Board (WCNCB) with the protection and maintenance of the adjacent Rooisands Reserve. The Estate also established an advisory committee on which it is represented with the WCNCB and members of the local community. The objective is to promote and ensure the protection and conservation of the Rooisands Reserve in order to retain the integrity of its Biosphere Reserve status. Specific focus areas include the removal of alien species and managing soil erosion. The Estate has also upgraded infrastructure on the reserve, including the construction of bird hides, trails and other facilities for visitors to the reserve.

Social and environmental *matters* (continued)

- The Arabella Country Estate regularly consults with an ecologist from the Kirstenbosch Botanical Gardens on the removal of alien species and the successful introduction of local indigenous fynbos species.
- Hospitality has embarked on an extensive alien species clearing project on the Phase 2 land held at Arabella through the establishment of an Enterprise Development Programme and assistance in creating a start-up Environmental Management Company called MCon and owned by Mr Martien Scheepers.

HUMAN CAPITAL, COMMUNITY AND EDUCATION

The Hospitality development academy and training initiatives

The future of the Hospitality industry depends largely on the quality of people employed and being able to re-ignite the passion for the industry. A beautiful, well maintained product, requires on board the correct management and staff in order to make the hotel come alive and provide the ultimate guest experience.

Hospitality commits to develop the leaders of tomorrow as well as ensure that all team members employed at our various properties are given the opportunity to grow and develop in an environment where they feel valued and are motivated to perform at their best.

Not everyone is fortunate enough to have the opportunity to obtain a qualification and through the Hospitality Development Academy ("the Academy") the Fund intends to open up the door to these opportunities through various bursaries and lifelong learning opportunities.

The Academy focuses foremost on the rising stars at Hospitality's respective hotels, which are those future leaders who have the potential to excel and are at times overlooked as a result of a lack of experience or education.

Various education and development programmes have been put in place throughout the Hospitality portfolio. These include amongst others a Management Development Programme, an online Facilities Management Program and B-Tech degree programs.

The Academy's approach is not a one size fits all approach to training and aims to rather personalise training plans and career paths for our emerging leaders.

The Academy is working with various training institutes to align their curriculum and objectives with those of the industry.

The Academy has partnered with the University of Johannesburg on its Bachelor of Education programme with the elective being Consumer Studies & Travel & Tourism. Driven by Hospitality, 14 second and third year student teachers will gain industry indepth knowledge into the various careers available in the Hospitality industry to school leavers by visiting various Hospitality hotels and being exposed to guest speakers and industry experts.

Hospitality remains cognisant that it operates in an industry where skilled human capital is a precious commodity. In a market economy where uncertainty is rather widespread and the competition is vast, obtaining knowledge and information is becoming a source for creating competing advantages.

Enterprise development projects

Hospitality is committed to supporting the communities within the areas that it operates and focuses on providing local entrepreneurs the opportunity to establish and grow their enterprises. Emphasis is specifically on assisting those entrepreneurs which Hospitality or its hotels procure from. Past projects include transport initiatives at both Arabella Hotel & Spa (one entrepreneur) and Mount Grace Country House & Spa (two entrepreneurs), of which all three entrepreneurs are still service providers to these properties and have managed to grow, expand and improve their enterprises and service offerings.

Another one of these initiatives is the empowerment of Mr Martiens Scheepers, a bush cutter by occupation through the establishment, mentoring and funding of Martien Scheepers Conservation (Pty) Limited, trading as MCon.

MCon's service is currently dedicated to Arabella Hotel & Spa ("Arabella") where it is responsible for the removal of alien vegetation in protection of the biosphere and surrounding areas. It is estimated that 13% of water available in the Western Cape is on average consumed by invasive alien vegetation.

MCon is also responsible for the maintenance of Arabella's golf cart routes and mountain bike trails.

MCon produces wood chips and fire wood which it sells to the Arabella Estate landscaping team and to the nearby towns and estates home owners respectively.

Hospitality's enterprise development loan to MCon has been utilised for Company set-up costs, the purchase of a 4x4 vehicle, equipment, supplies and training. The loan is repayable over a 5-year period at no interest. A service level agreement exists between MCon and Arabella Hotel & Spa.

CORPORATE SOCIAL INVESTMENT

During the year under review, the individual Hospitality hotels continued to support the immediate communities in which they operate by making contributions and supporting upliftment programmes. These included feeding programmes, donations and improvements to schools and community centres.

Annual financial statements

for the year ended 30 June 2014

CONTENTS PAGE

Directors' responsibility and approval

The directors are responsible for:

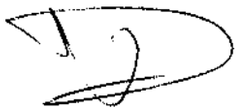
- The preparation and fair presentation of the group and separate annual financial statements of Hospitality Property Fund Limited, comprising the statements of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2008 of South Africa:
- Preparing the directors' report;
- Such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- For maintaining adequate accounting records and an effective system of risk management; and
- The preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

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

APPROVAL OF GROUP AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The group and separate annual financial statements of Hospitality Property Fund Limited, as identified in the first paragraph, were approved by the board of directors on 28 August 2014 and signed by



DG Bowden
Chairman

AS Rogers
Chief Executive Officer

Preparer of the financial statements

The group and separate annual financial statements of Hospitality Property Fund Limited as approved by the board of directors on 28 August 2014 and audited in compliance with section 30 of the Companies Act, 2008, were prepared by the Group Financial Manager, Mr R Erasmus CA(SA), under the supervision of the Financial Director, Mr R Asmal.

Finance – Seugnet Le Roux, Riaan Erasmus, Rinda Frey, Maria Olivier and Kate Vimbelela

Certificate by the company secretary

I hereby certify that for the year ended 30 June 2014, the company has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act, 2008 and all such returns appear to be true, correct and up to date.

LR van Onselen
for HPF Management (Pty) Limited
Secretaries
28 August 2014

Report of the Audit and Risk committee

REPORT IN TERMS OF SECTION 94(7)(F) OF THE COMPANIES ACT, 2008 AND THE JSE LISTINGS REQUIREMENTS

The audit and risk committee is pleased to submit its report in compliance with section 94(7)f of the Companies Act, 2008. Details on the composition of the committee, its terms of reference, frequency of meetings and attendance at meetings are set out in the corporate governance section of the Integrated Report on page 66.

EXECUTION OF FUNCTIONS OF THE AUDIT COMMITTEE

The committee has fulfilled its duties in terms of its statutory obligations contained in the Companies Act, 2008, its terms of reference and King III requirements. Any areas of non or partial application of King III have been explained in the corporate governance report. The committee, in addition to its statutory duties, also fulfils other functions assigned to it by the Board, which include the governance of risk.

EXTERNAL AUDITOR APPOINTMENT AND INDEPENDENCE

The committee is satisfied that KPMG Inc., the external auditor, is independent of the group. The committee has considered the nature and extent of fees received in respect of any non-audit services performed by the auditor, the tenure and rotation of the audit partner and compliance with criteria relating to independence and conflicts of interests as prescribed by the Independent Regulatory Board for Auditors. Confirmation was given by the auditor that compliance with its internal policies and the prohibition of any shareholding in the company supports its claim of independence.

The committee approved the audit plan, terms of engagement and audit fees for the 2014 external audit.

The committee is satisfied that KPMG Inc. is a registered auditor in terms of the Auditing Profession Act and that the audit firm and designated auditor is accredited on the JSE Limited's list of auditors and advisors.

The committee, being satisfied with the independence and objectivity of the KPMG Inc., recommends to shareholders the reappointment of the external auditor for the 2015 financial year at the next annual general meeting.

CONTENT OF THE ANNUAL FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The committee has reviewed the accounting policies and estimates and content of the annual financial statements for the 2014 financial year. The committee is satisfied that they are adequate and appropriate and that the financial statements comply with International Financial Reporting Standards, the Companies Act and the JSE Limited Listings Requirements. The committee recommended the financial statements to the board for approval.

INTERNAL FINANCIAL CONTROLS

The company's internal financial control processes were reviewed as part of the company's annual audit. The group's internal controls processes were documented by the finance team and considered by the audit and risk committee. The committee is satisfied that adequate financial controls exist to mitigate financial reporting risks.

INTERNAL AUDIT

The audit and risk committee is responsible for assessing the need for an internal audit function. Given the size and nature of the company's operations, the audit and risk committee is of the view that the Company currently does not have a dedicated, in-house internal audit team as internal audit functions are fulfilled at an individual hotel level. Internal audit functions have been implemented at each hotel and are independently monitored by management and reported on at least twice a year to the audit and risk committee.

EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND THE FINANCE TEAM

The committee has considered and is satisfied with the appropriateness of the expertise and adequacy of resources within the finance function and with the expertise and experience of the financial director.

RISK MANAGEMENT

The Group's risk management framework was adopted during 2014. The risk management plan has been reviewed and approved. The process is monitored by the Audit and Risk committee. Further details can be found on page 77.

L de Beer
Audit and Risk Committee chairman
28 August 2014

Directors' report

The directors have pleasure in submitting their report for the year ended 30 June 2014.

NATURE OF BUSINESS

Hospitality Property Fund Limited ("the Fund/the Company") is a Real Estate Investment Trust ("REIT") listed on the JSE Limited ("JSE"). The company is the only specialised REIT in South Africa investing in the hotel and leisure sector, providing investors exposure to both the property and hospitality industries.

The property portfolio consists of interests in 26 properties valued at R4,83 billion.

GROUP OF ENTITIES

The "group" comprises of the following entities:

- Hospitality Property Fund Limited;
- HPF Properties (Pty) Limited;
- HPF Management (Pty) Limited;
- Hospitality Property Fund Managers (Pty) Limited;
- Hosbrook Ventures (Pty) Limited;
- NIB 35 (Pty) Limited; and
- HPF Employee Incentive Trust.

REVIEW OF OPERATIONS

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

DISTRIBUTIONS

The A-linked unit distribution for the year amounted to 141,35 (2013: 134,63) cents, an increase of 5,0%, and the B-linked unit distribution was 33,45 (2013: 18,08) cents an increase of 85,0% from the previous year.

The combined distribution for the year amounted to 174,80 (2013: 152,71) cents, an increase of 14,5% from the previous year.

The rights issue market forecast distribution for the B-linked units of 26,72 cents was exceeded by 25,2%.

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 12 and 14 of the financial statements.

ACQUISITIONS

On 9 April 2014, 200 timeshare weeks were acquired in Champagne Share Block Limited for a consideration of R7,3 million. The consideration was funded through the issue of 346 968 A- and 346 968 B-linked units at a price of R15,80 and R5,20 respectively.

On 28 May 2014, additional sectional title units were acquired at the Radisson Blu Waterfront Hotel for a consideration of R11,7 million, the consideration was funded through the issue of 565 219 A- and 565 219 B-linked units at a price of R15,60 and R5,10 respectively.

PROPERTY VALUATIONS

The property portfolio was revalued by an independent property valuer at R4,83 billion (2013; R4,57 billion), with the net asset value per linked unit being R11,40 (2013: R10,95) per A-linked unit and R11,40 (2013: R10,95) per B-linked unit.

The fair value of the properties held under Investment property (note 2), increased by R174,7 million (2013: R204,7 million). Acquisitions and capital expenditure for the year amounted to R19,2 million (2013: R451,0 million) and R71,1 million respectively (2013: R31,3 million).

The fair value of the properties held under non-current assets held for sale (note 11), decreased by R20,9 million (2013: increased by R13,7 million). Capital expenditure for the year amounted to R13,9 million (2013: R7,3 million).

BORROWINGS

The average cost of borrowings for the group was 9.14% (2013: 8.56%) and 58% of the groups' borrowings were subject to fixed interest rates at 30 June 2014.

Facilities with financial institutions as at 30 June 2014, amounted to R1,02 billion (2013: R1,73 billion) with R0,9 billion (2013: R1,57 billion) being utilised at year-end.

Domestic medium-term note (DMTN) Programme

During the prior year, the Fund registered a R2 billion DMTN Programme, with the intention to diversify a portion of its funding from generic bank debt into the debt capital markets.

The Fund raised R500 million through the issue of secured notes in February 2014 to settle the Absa Limited ("Absa") facilities. A further R100 million was raised in April 2014 to fund capital expenditure projects. As a result of the of the early settlement of the facilities with Absa, a cancellation fee of R4,9 million was incurred.

Total notes in issue at year-end amounted to R870 million (2013: R270 million).

Borrowing facilities available to the Fund at 30 June 2014 was R1,89 billion with R1,77 billion withdrawn, and details regarding this can be found under note 15 of the financial statements. Total facilities expiring in the next 12 months, amounts to R40 million. This facility relates to the unsecured notes issued in April 2013 and the Fund is considering its options to refinance this facility.

The group's gearing ratio at 30 June 2014, was 36.7% (2013: 34.4%). The gearing ratio of the group is the total interest-bearing liabilities divided by the total value of investment properties.

DIRECTORATE

The board of directors comprises of:

Independent non-executive chairman

Mr DG Bowden

Executive	Non-executive
Mr R Asmal	Mr GA Nelson
Mr AS Rogers	

Independent non-executive

Mr KH Adbul-Karrim
Mrs L de Beer
Mr SA Halliday
Mr ZN Kubukeli
Miss Z Ntwasa (Appointed 8 July 2013)
Mr WC Ross
Mrs A Soni

On 1 April 2014, Mr WC Ross stepped down as a member of the Audit and Risk Committee. He remains as an independent non-executive director and retains his membership on other board committees.

In terms of the company's Memorandum of Incorporation, Mr GA Nelson, Mr ZN Kubukeli, Mr AS Rogers and Mr R Asmal retire by rotation and offer themselves for re-election.

DIRECTORS' INTEREST

The directors' holdings of linked units at 30 June 2014 were:

A-linked units (number of units)

	2014				2013			
	Direct beneficial	**Indirect beneficial**	**Held by associates**	**Total**	Direct beneficial	Indirect beneficial	Held by associates	Total
R Asmal	**3 400**	**–**	**–**	**3 400**	3 400	–	–	3 400
GA Nelson	**–**	**–**	**281 544**	**281 544**	–	–	281 544	281 544
	3 400	**–**	**281 544**	**284 944**	3 400	–	281 544	284 944

B-linked units (number of units)

	2014				2013			
	Direct beneficial	**Indirect beneficial**	**Held by associates**	**Total**	Direct beneficial	Indirect beneficial	Held by associates	Total
R Asmal	**35 000**	**–**	**–**	**35 000**	35 000	–	–	35 000
GA Nelson	**–**	**–**	**825 625**	**825 625**	–	–	825 666	825 666
	35 000	**–**	**825 625**	**860 625**	35 000	–	825 666	860 666

On 1 September 2014 Miavox (Proprietary) Limited took up 474 861 HPA and 474 861 HPB. Mr ZN Kubukeli has a 25% indirect interest in Miavox.

DIRECTORS' REMUNERATION

Remuneration of directors is disclosed in note 28.3 to the financial statements.

DISTRIBUTION TO UNITHOLDERS

Distribution to unitholders is disclosed in note 22 to the financial statements.

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 integrated report on page 69.

SUBSIDIARY COMPANIES

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

ASSOCIATE COMPANIES

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

GOING CONCERN

The directors have made an assessment of the company and its subsidiaries' 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. The company has applied the solvency and liquidity test as required by the Companies Act, 2008 for both interim and final distribution payments.

SUBSEQUENT EVENTS

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

REAL ESTATE INVESTMENT TRUST

The new Memorandum of Incorporation was aligned with the Companies Act, 2008, and adopted at the Special General Meeting on 28 January 2014.

The JSE Limited granted extension to REIT's until 1 July 2015 in order to convert their linked unit structure to shares. The Fund is in the process of converting its linked-units into shares.

COMPANY SECRETARY

The company secretary is HPF Management (Pty) Limited (Reg No.: 2009/021472/07)

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

Business address: The Zone II, Lofts East Wing, 2nd Floor, Corner Oxford and Tyrwhitt Streets, Rosebank

Postal address: PO Box 522195, Saxonwold, 2132

Report of the independent auditor

TO THE SHAREHOLDERS OF HOSPITALITY PROPERTY FUND LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the group and separate financial statements of Hospitality Property Fund Limited, which comprise the statements of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 96 to 137.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

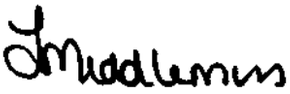
OPINION

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 2014, 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 the requirements of the Companies Act of South Africa.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 30 June 2014, we have read the Directors' Report, the Audit and Risk Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor



Per TA Middlemiss
Chartered Accountant (SA)
Registered Auditor
Director

28 August 2014

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Statements of financial position

as at 30 June 2014

	Notes	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
ASSETS					
Non-current assets		**4 536 393**	4 324 662	**3 793 798**	3 160 603
Investment properties	2	**4 514 950**	4 246 848	**–**	–
Straight-line rent income accrual	3	**1 050**	4 152	**–**	–
Investment properties and related accrual		**4 516 000**	4 251 000	**–**	–
Furniture, fittings and equipment	4	**942**	899	**–**	–
Goodwill	5	**19 200**	72 600	**–**	–
Investment in subsidiary	6	**–**	–	**3 783 230**	3 160 603
Loan to HPF Share Incentive Trust	30	**–**	–	**10 568**	–
Investment in associates	7	**251**	163	**–**	–
Current assets		**577 725**	448 263	**6 195**	700
Non-current assets held for sale	11	**311 900**	318 900	**–**	–
Properties held for trading	9	**20 535**	19 708	**–**	–
Trade and other receivables	8	**58 087**	42 260	**5 719**	213
Cash and cash equivalents	10	**187 203**	67 395	**476**	487
Total assets		**5 114 118**	4 772 925	**3 799 993**	3 161 303
EQUITY AND LIABILITIES					
Equity		**801 847**	690 752	**474 744**	470 189
Share capital and share premium	12	**481 316**	476 199	**481 316**	476 199
Retained earnings		**13 289**	73 884	**(6 572)**	(6 010)
Fair value reserve	13	**307 242**	140 669	**–**	–
Non-current liabilities		**4 066 078**	3 708 134	**3 165 181**	2 584 441
Debentures	14	**2 325 186**	2 314 441	**2 335 181**	2 314 441
Interest-bearing liabilities	15	**1 732 627**	1 372 627	**830 000**	270 000
Derivative liability	29.1	**8 265**	21 066	**–**	–
Current liabilities		**246 193**	374 039	**160 068**	106 673
Trade and other payables	17	**87 917**	67 151	**1 654**	938
Short-term portion of interest-bearing liabilities	15	**40 000**	200 000	**40 000**	–
Taxation		**134**	1 153	**–**	–
Debenture interest payable	24	**118 142**	105 735	**118 414**	105 735
Total equity and liabilities		**5 114 118**	4 772 925	**3 799 993**	3 161 303
Net asset value per linked unit (Rand)					
A-linked unit		**11,40**	10,95	**10,17**	10,15
B-linked unit		**11,40**	10,95	**10,17**	10,15

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

Statements of comprehensive income

for the year ended 30 June 2014

	Notes	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Revenue		**423 174**	356 042	**–**	–
Rental income – contractual		**426 276**	356 337	**–**	–
– straight-line accrual	3	**(3 102)**	(295)	**–**	–
Operating income	19	**–**	–	**254 822**	202 353
Expenditure		**(40 524)**	(29 878)	**(8 208)**	(4 644)
Operating expenses		**(40 524)**	(29 878)	**(8 208)**	(4 644)
Operating profit	18	**382 650**	326 164	**246 614**	197 709
Transaction costs on business combinations		**–**	(1 975)	**–**	–
Profit on properties held for trading		**–**	948	**–**	–
Net finance (cost)/income		**(146 041)**	(132 320)	**438**	(3 953)
Finance income	19	**4 371**	1 819	**37 633**	94
Finance costs	19	**(150 412)**	(134 139)	**(37 195)**	(4 047)
Profit before debenture interest, goodwill, fair value adjustments and taxation		**236 609**	192 817	**247 052**	193 756
		(239 483)	(194 054)	**(240 134)**	(194 054)
Debenture interest		**(240 014)**	(200 184)	**(240 665)**	(200 184)
Recoupment of debenture interest	20	**531**	6 130	**531**	6 130
(Loss)/profit before fair value adjustments, goodwill and taxation		**(2 874)**	(1 237)	**6 918**	(298)
Gain on bargain purchase		**–**	7 615	**–**	–
Fair value adjustments		**116 275**	199 356	**–**	–
Investment properties, before straight-lining adjustment		**153 772**	218 441	**–**	–
Straight-line rental income accrual	3	**3 102**	295	**–**	–
Total fair value of investment properties		**156 874**	218 736	**–**	–
Goodwill impairment	5	**(53 400)**	(41 400)	**–**	–
Interest-rate swaps		**12 801**	22 020	**–**	–
Profit/(loss) before taxation		**113 401**	205 734	**6 918**	(298)
Equity accounted profit from associate after tax	7	**238**	126	**–**	–
Debenture discount amortisation	19	**(7 480)**	(5 635)	**(7 480)**	(5 635)
Taxation	21	**(181)**	35 572	**–**	–
Total profit/(loss) and total comprehensive income for the year		**105 978**	235 797	**(562)**	(5 933)

Statements of comprehensive income (continued)

for the year ended 30 June 2014

	Notes	Group 2014	Group 2013	Company 2014	Company 2013
Distribution per linked unit (cents)					
A-linked units					
– interim		**69,83**	66,51	**69,83**	66,51
– final		**71,52**	68,12	**71,52**	68,12
Total		**141,35**	134,63	**141,35**	134,63
B-linked units					
– interim		**19,25**	9,19	**19,25**	9,19
– final		**14,20**	8,89	**14,20**	8,89
Total		**33,45**	18,08	**33,45**	18,08
Earnings and diluted earnings per share (cents)					
A units		**126,46**	168,63	**–**	–
B units		**126,46**	168,63	**–**	–
		252,92	337,26	**–**	–

Statements of changes in equity

for the year ended 30 June 2014

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Treasury share reserve R'000	Total R'000
GROUP						
Balance at 30 June 2012	25	392 102	115 278	(136 522)	–	370 883
Profit/total comprehensive income for the year	–	–	235 797	–	–	235 797
Transactions with owners, recorded directly in equity	2	84 070	(277 191)	277 191	–	84 072
Issue of shares	2	84 321	–	–	–	84 323
Share issue expenses, net of tax	–	(251)	–	–	–	(251)
Transfer to fair value reserve – investment properties (net of deferred tax)	–	–	(255 171)	255 171	–	–
Transfer to fair value reserve – interest rate swaps	–	–	(22 020)	22 020	–	–
Balance at 30 June 2013	27	476 172	73 884	140 669	–	690 752
Profit/total comprehensive income for the year	–	–	105 978	–	–	105 978
Transactions with owners, recorded directly in equity	–	5 117	(166 573)	166 573	–	5 117
Issue of shares	–	5 194	–	–	–	5 194
Share issue expenses, net of tax	–	(77)	–	–	–	(77)
Treasury shares acquired	–	–	–	–	–	–
Transfer to fair value reserve – investment properties	–	–	(153 772)	153 772	–	–
Transfer to fair value reserve – interest rate swaps	–	–	(12 801)	12 801	–	–
Balance at 30 June 2014	27	481 289	13 289	307 242	–	801 847
COMPANY						
Balance at 30 June 2012	25	392 102	(77)	–	–	392 050
Loss/total comprehensive income for the year	–	–	(5 933)	–	–	(5 933)
Transactions with owners, recorded directly in equity	2	84 070	–	–	–	84 072
Issue of shares	2	84 321	–	–	–	84 323
Share issue costs, net of tax	–	(251)	–	–	–	(251)
Balance at 30 June 2013	27	476 172	(6 010)	–	–	470 189
Loss/total comprehensive income for the year	–	–	(562)	–	–	(562)
Transactions with owners, recorded directly in equity	–	5 117	–	–	–	5 117
Issue of shares	–	5 194	–	–	–	5 194
Share issue expense, net of tax	–	(77)	–	–	–	(77)
Balance at 30 June 2014	27	481 289	(6 572)	–	–	474 744

Statements of cash flows

for the year ended 30 June 2014

	Notes	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from operations	23	**391 132**	336 430	**241 824**	194 604
Finance income received	19	**4 371**	1 819	**37 633**	94
Finance costs paid	19	**(150 412)**	(134 139)	**(37 195)**	(4 047)
Taxation		**(1 200)**	(89)	**–**	–
Distribution to unitholders	24	**(227 607)**	(156 500)	**(227 986)**	(156 500)
Net cash inflow from operating activities		**16 284**	47 521	**14 276**	34 151
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition and development of investment properties	25	**(104 228)**	(481 989)	**–**	–
Acquisition of properties held for trading		**(827)**	(728)	**–**	–
Acquisition of furniture and equipment		**(484)**	(799)	**–**	–
Dividends received from associates	7	**150**	125	**–**	–
Loan advanced to HPF Share Incentive Trust	30	**–**	–	**(10 568)**	
Loan advanced to subsidiary		**–**	–	**(622 627)**	(578 587)
Net cash outflow from investing activities		**(105 389)**	(483 391)	**(633 195)**	(578 587)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issue of linked units		**18 985**	274 974	**18 985**	274 974
Share issue expenses paid		**(77)**	(251)	**(77)**	(251)
HPF shares and debentures held by Trust		**(9 995)**	–	**–**	–
Interest-bearing liabilities raised		**200 000**	213 100	**600 000**	270 000
Net cash inflow from financing activities		**208 913**	487 823	**618 908**	544 723
Net increase/(decrease) in cash and cash equivalents		**119 808**	51 953	**(11)**	287
Cash and cash equivalents at beginning of year		**67 395**	15 442	**487**	200
Cash and cash equivalents at end of year		**187 203**	67 395	**476**	487

1. ACCOUNTING POLICIES

Hospitality Property Fund Limited ("the company") is a company domiciled in South Africa. The group and separate financial statements for the year ended 30 June 2014 comprise those of the company, its subsidiaries (together referred to as the "group" and individually as "group entities") and the group's interest in associates. The group is primarily focused on the investment in hotel properties. The financial statements were authorised for issue by the directors on 28 August 2014.

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

1.1 Statement of compliance

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the interpretations issued respectively by the International Accounting Standards Board (IASB), the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings requirements and the requirements of the Companies Act, 2008 of South Africa.

1.2 Basis of preparation

The financial statements are presented in Rands, which is the functional currency of all the group entities, rounded to the nearest thousand. They are prepared on the historical cost basis except for investment properties and certain financial instruments which are measured 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.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed under note 2, 5, 11, 16, 29 and 30.

Except for the changes noted, the group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements.

The group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements;
- IFRS 12: Disclosure of Interest in Other Entities;
- IFRS 13: Fair Value Measurement; and
- Amendments to IAS 1: Presentation of items of Other Comprehensive Income (OCI).

The effect of the above standards are as follows:

IFRS 10: Consolidated Financial Statements – Subsidiaries

As a result of IFRS 10 (2011), the group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates investees. IFRS 10 (2011) introduces a new control model that focuses on whether the group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The group has not changed its control conclusion in respect of its investments in subsidiaries.

IFRS 11 Joint arrangements

As a result of IFRS 11, the group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the group has classified its interests in joint arrangements as either joint operations (if the group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the group has rights only to the net assets of an arrangement). When making this assessment, the group considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. The group has re-evaluated its involvement in its arrangements and has not reclassified any of its investments.

IFRS 12 Disclosure of interests in other entities

As a result of IFRS 12, the group has expanded its disclosure about its interests in subsidiaries under notes 6 and equity accounted investees under note 7.

1. ACCOUNTING POLICIES *(continued)*

1.2 Basis of preparation *(continued)*

IFRS 13 Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosure about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the group has included additional disclosures in this regard under notes 2, 11, 15 and 29.1

In accordance with the transitional provisions under IFRS 13, the group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the group's assets and liabilities.

The preparation of financial statements in accordance 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.

A controlled framework is in place in respect of the measurement of fair values. This includes the analyst team that oversees the fair value measurements for investment properties, valued by an independent valuer, who reports directly to the Financial Director. Financial instruments measured at fair value, are adjusted for changes to its fair value as presented by the contracting financial institution.

When measuring the fair value of an asset or liability, market observable data is used as much as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability are catogorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Transfers between the levels of the fair value hierarchy are done at the end of the reporting period during which the change has occurred.

Amendments to IAS 1: Presentation of items of Other Comprehensive Income (OCI).

The amendments to IAS 1 require the group to modify the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. The amendment has not resulted in a change in presentation of items of OCI.

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 group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

1. ACCOUNTING POLICIES *(continued)*

1.3 Basis of consolidation *(continued)*

1.3.1 Business combinations *(continued)*

The group 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 group. 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 measured at cost less impairment losses.

1.3.3 Investment in Joint Ventures and Associates (Equity accounted investees)

Associates are those entities in which the group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the group has joint control, whereby the group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

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

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

1.3.4 Transaction eliminated on consolidation

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

1.4 Investment properties

Investment properties consist of properties acquired to earn rental income for the long term and subsequent capital appreciation. Properties are recognised 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, equipment and underlying business.

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

1. ACCOUNTING POLICIES *(continued)*

1.4 Investment properties *(continued)*

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

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

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

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

1.5 Properties held for trading

Properties held for trading comprise properties acquired as well as properties developed with the intention of disposing them for profit, and are recorded at the lower of cost and net realisable value.

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

1.6 Non-current assets held for sale

Classification

Non-current assets held for sale, are those investment properties whose carrying amount will be recovered principally through sale rather than use. To classify the investment property as a non-current asset held for sale, it must be available for immediate sale in its present condition, subject only to terms that are usual for the sale of such assets, and the sale must be highly probable within a year. For the sale to be highly probable, management must be committed to a plan to dispose of the investment properties, actively market them, and expect that the properties will be sold within a year.

Measurement

The investment properties held for sale, are measured in terms of IAS40 at fair value.

1.7 Financial instruments

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

Financial instruments include the following instruments per category:

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

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. ACCOUNTING POLICIES *(continued)*

1.7 Financial instruments *(continued)*

1.7.1 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.

1.7.2 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.

1.7.3 Trade and other payables

Trade and other payables are measured at amortised cost, using the effective interest method.

1.7.4 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.

1.7.5 Derivative financial instruments

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

Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. 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 group are interest rate swaps. The fair value of an interest rate swap is the estimated amount that the group would receive or pay to terminate the swap at the reporting date, taking account of current interest rates and the current creditworthiness of the swap counterparties.

1.7.6 Derecognition

The group de-recognises a financial asset when and only when:

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

(b) It transfers the 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 group 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.

1.7.7 Offset

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

1.7.8 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.

1. ACCOUNTING POLICIES *(continued)*

1.7 Financial instruments *(continued)*

1.7.8 Impairment *(continued)*

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

The group 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 group 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.

1.8 Share capital and share premium

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

1.9 Provisions

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

1.10 Revenue recognition

1.10.1 Rental income

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

1.10.2 Finance income

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

1.10.3 Interest income from subsidiaries

Interest income is earned by the company on its investments in its subsidiary, refer to note 6.

1.11 Expenses

1.11.1 Letting costs

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

1.11.2 Finance costs

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

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

1.12 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 business combinations or items recognised directly in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided for the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination, where the initial recognition affects neither accounting nor taxable profit or loss and on differences relating to investments in subsidiaries, associates and joint ventures to the extent that the parent company is able to control the timing of the reversal of the temporary differences and 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.

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 group, 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.

Non-REIT assets and liabilities
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.

REIT assets and liabilities
In respect of investment properties the measurement of deferred tax is based on a rebuttable presumption that the amount of the investment property will be recovered entirely through sale. Capital gains and losses for property sold by a REIT are disregarded and the rate relevant to recoupments is 28%. Investment properties are held as long-term income generating assets. Therefore, should any property no longer meet the company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains (current nil). Allowances previously claimed will be recouped on sale. Where an accumulated loss is available to shield this recoupment, a deferred tax asset is raised.

In respect of other assets and liabilities deferred tax is provided based on the expected manner of realisation or settlement taking into account the entities expectation that it will pay dividends and will receive a tax deduction making it in substance exempt.

1.13 Segment reporting

Determination and presentation of operating segments

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

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

Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the group's CEO. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment profit includes actual rental cash flows and does not include straight-lining of 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)*

1.14 Employee benefits:

1.14.1 Short-term employee benefits

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

1.14.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an group pays fixed contributions into a separate group 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.

1.14.3 Share-based payment transaction

The fair value of the amount payable to employees in respect of the Share Appreciation Rights (SAR's), which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at a settlement date based on the fair value of the SAR's. Any change in the measurement of the liability is recognised in profit or loss.

1.14.4 Accounting for the HPF Employee Incentive trust

The trust is a separate legal entity and in terms of IFRS10: Consolidations, and is accounted for as a subsidiary and part of the group.

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.

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

(ii) Subsequent costs

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

(iii) Depreciation

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

1. ACCOUNTING POLICIES *(continued)*

1.16 Property, plant and equipment *(continued)*

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 group 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:

	2014	2013
Furniture, fittings and equipment	**3 – 6 years**	3 – 6 years
Computer hardware and software	**3 years**	3 years

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

1.17 Impairment of non-financial assets

The carrying amount of the group'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.

1.18 Leases

The group is party to numerous leasing contracts as the lessor of property. All leases are operating leases, which are those leases where the group 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 group 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 group is also party to leasing contracts as the lessee of some property and equipment. Operating lease rentals with fixed escalation clauses are recognised in profit or loss on a straight-line basis over the lease term. The resulting difference arising from the straight-line basis and contractual cash flows is recognised as an operating lease asset or operating lease liability.

1.19 New and amended IFRS standards not yet effective

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 group:

IFRS 9: Financial Instruments

IFRS 9 will be adopted by the group for the year ending 30 June 2019. 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, financial assets are classified and measured based on the business model in which they are held and the charactaristics of their contractual cash flows.

IFRS 15: Revenue from Contracts with Customers

On 28 May 2014, the IASB issued IFRS15: Revenue from Contracts with Customers which replaces the existing IFRS guidance and introduces a new revenue recognition model for contracts with customers. It also requires extensive new disclosures. The effective date of the standard is annual periods beginning on or after 1 January 2017, with early adoption permitted. The group has not yet made an assessment of the potential impact on the financial statements.

Improvements Projects of the IASB

The IASB makes amendments to certain Standards and Interpretations in issue. Some of the amendments made during the 2013 and 2014 improvements projects are not yet effective. Management have considered all the improvements and have concluded that they will have either no or minimal impact.

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
2. INVESTMENT PROPERTIES				
Balance at beginning of year	**4 246 848**	3 639 508	–	–
Additions at cost – capitalised expenditure	**71 142**	31 334	–	–
Additions – acquisitions at fair value	**19 195**	451 000	–	–
Non-current assets held for sale (transfer to note 11)	–	(80 000)		
Fair value adjustment	**174 663**	204 711	–	–
Property at fair value	**4 511 848**	4 246 553	–	–
Adjust: Straight-line rental income accrual	**3 102**	295	–	–
Balance at end of year	**4 514 950**	4 246 848	–	–

The investment property portfolio serves as collateral against loans from funding banks and secured notes. Refer to note 15.

Measurement of fair value

(i) Fair value hierarchy

Investment properties were independently valued at 30 June 2014. The valuation of the portfolio was performed by Mr B van Vuuren, Professional Associate Valuer, from JHI (Gensec Property Services Limited). The valuations are done on an annual basis on the entire portfolio of investment properties.

The fair value measurement for the investment properties of R174,7 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Hierarchy levels

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

	Group 2014 R'000
(ii) Level 3 fair value	
Reconciliation	
Balance as at 1 July 2013	**4 246 848**
Acquisitions and capital expenditure	**90 337**
Adjust: straight line rental income accrual	**3 102**
Gains included in "Fair value adjustments"	
– Unrealised changes in fair value	**174 663**
Balance as at 30 June 2014	**4 514 950**

2. INVESTMENT PROPERTIES *(continued)*

(iii) Valuation technique and significant unobservable inputs

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, together with its movables, operating equipment and the business, taking into account expected rental growth rates, void periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a hotel property, its movables, operating equipment and business, its location and lease terms.	– Expected rental/hotel net profit growth varies between a decrease of 11,7% and a growth of 42,4%. The weighted average growth rate applied in the rental income/hotel net profit is 5,2%; – Void periods (average is nil); – Risk-adjusted discount rates varies between 13,50% and 15,50%, with a weighted average discount rate of 14,18%.	The estimated fair value would increase/(decrease) if: – expected rentals/hotel net profit growth were higher/(lower); – Void periods (no effect); – Risk-adjusted discount rates were lower/(higher).

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
3. STRAIGHT-LINE RENT INCOME ACCRUAL				
Balance at beginning of year	**4 152**	4 447	**–**	–
Straight-line rental reversed during year	**(3 102)**	(295)	**–**	–
Balance at end of year	**1 050**	4 152	**–**	–
4. FURNITURE, FITTINGS AND EQUIPMENT				
Cost				
Balance at beginning of year	**1 582**	896	**–**	–
Acquisition during year	**503**	886	**–**	
Disposals	**(123)**	(200)	**–**	–
Balance at end of year	**1 962**	1 582	**–**	–
DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at beginning of year	**683**	414	**–**	–
Depreciation for the year	**441**	382	**–**	–
Disposals	**(104)**	(113)	**–**	–
Balance at end of year	**1 020**	683	**–**	–
CARRYING AMOUNT				
Balance at beginning of year	**899**	482	**–**	–
Balance at end of year	**942**	899	**–**	–

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
5. GOODWILL				
Opening balance	**72 600**	114 000	**–**	–
Impairment loss	**(53 400)**	(41 400)	**–**	–
Carrying amount at year end	**19 200**	72 600	**–**	–

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 value in use. It was determined that the recoverable amount was lower than the carrying amount and therefore an impairment loss of R53,4 million 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 0.5% of enterprise value which comprise a combination of interest bearing debt and market capitalisation;
- 1% acquisition and development fee;

(ii) Remuneration in respect of all staff employed by the asset management company will grow in line with inflation;

(iii) Rental cost of premises and all overheads will change in line with inflation;

(iv) The value in use was calculated based on an amount equivalent to the estimated future cash flow of HPF Management over 5 years (based on the purchase agreement) from 2015 to 2019. The cash flow of HPF Management for each of the years was calculated by taking the net profit before tax and depreciation cash flows from the operation for each of the years escalated by the CPI for a five year forecast period and discounting the forecast cash flows by the average yield of Hospitality Property Fund Limited over the previous five years, which amounted to 8.39% (2013: 8.81%)

The impairment of the goodwill is mainly driven by the low growth levels of the A- and B-linked unit prices, the assumption that acquisitions would take place in the current year that did not materialise, as well as increased expenditure in the management company.

	Company	
	2014 R'000	2013 R'000
6. INVESTMENT IN SUBSIDIARY		
Shares at cost (R120)	**–**	–
Loan to HPF Properties (Pty) Limited	**3 783 230**	3 160 603
	3 783 230	3 160 603

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 and repayable on demand.

An amount of R37,6 million (2013: R202 million) in interest and R254,8 million in dividends were paid to the holding company during year.

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
7. INVESTMENT IN ASSOCIATES				
7.1 Vexicure (Pty) Limited				
Opening balance	**163**	162		
Profit attributable to HPF	**238**	126	–	–
Dividends received	**(150)**	(125)	–	–
Carrying value of investment	**251**	163	–	–

Vexicure (Pty) Limited ("Vexicure") was incorporated on 17 September 2009 and was purchased by HPF Properties (Pty) Limited for R120.

Vexicure was a dormant entity on acquisition date, and commenced trading on 13 May 2011 as the tenant for the Westin Cape Town hotel. Ninety five percent of the shareholding in Vexicure was sold to Pan-African Capital Holdings (Pty) ("Pan-African") Limited on 13 May 2011. Subsequently, Pan-African has sold 15% of Vexicure Limited to the WCT Hotel Share Incentive Trust which was incorporated in the 2012 financial year.

Vexicure is a strategic partner and associate to the Fund, as it leases the Westin hotel property and contributed 20.6% (2013: 19.7%) to the consolidated rental income. The Fund is represented by two (in terms of the shareholders agreement) of the five directors of its board of directors and therefore exercises significant influence.

	2014 R'000	2013 R'000
Summary of Vexicure's Statement of Financial Position which represents 100%		
ASSETS		
Current assets	**39 981**	41 945
Total assets	**39 981**	41 945
EQUITIES AND LIABILITIES		
Capital and reserves	**4 778**	4 179
Current liabilities	**35 203**	37 766
Total equities and liabilities	**39 981**	41 945
Summary of Vexicure's Statement of Comprehensive Income		
Revenue	**266 282**	238 147
Gross profit	**182 622**	153 509
Total operating expenditure	**(89 562)**	(79 186)
Rental to HPF Properties (Pty) Limited	**(87 731)**	(70 077)
Taxation	**(572)**	(1 730)
Profit and total comprehensive income for the year	**4 757**	2 516
Profit attributable to the HPF group	**238**	126

7.2 Ash Brook Investments 72 (Pty) Limited

Ash Brook Investments 72 (Pty) Limited ("Ash Brook") was incorporated on 14 August 2007 and commenced trading on the same day. The company was acquired on 30 April 2013 by HPF Properties (Pty) Limited for R100, with 85% being subsequently sold to Khomelela Investments (Pty) Limited for R85.

Ash Brook is a strategic partner and associate to the Fund, as it leases the Radisson Blu Gautrain property from HPF Properties (Pty) Limited and contributes significantly to the consolidated rental income. The Fund is represented by two (in terms of the shareholders agreement) of the four directors of its board of directors and therefore exercises significant influence.

	2014 R'000	2013 R'000
7. INVESTMENT IN ASSOCIATES *(continued)*		
Summary of Ash Brook's Statement of Financial Position which represents 100%		
ASSETS		
Non-current and current assets	**27 501**	26 770
Total assets	**27 501**	26 770
EQUITIES AND LIABILITIES		
Capital and reserves	**(737)**	(597)
Non-current and current liabilities	**28 238**	27 367
Total equities and liabilities	**27 501**	26 770
Summary of Ash Brook's Statement of Comprehensive Income		
Revenue	**126 697**	17 163
Gross profit	**114 157**	15 786
Total operating expenditure	**(69 496)**	(11 602)
Rental to HPF Properties (Pty) Limited	**(42 947)**	(4 122)
Taxation	**365**	(169)
Profit/(loss) and total comprehensive income for the year/period	**2 079**	(107)
Profit/(loss) attributable to the HPF group	**312**	(16)

No profit attributable to the HPF group has been recognised as the accumulated loss to 30 June 2014 after taking the above into account, amounts to R51k. The group's liability towards the accumulated loss is Rnil. Only revenue and expenditure relating to May 2013 and June 2013 were included in 2013.

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
8. TRADE AND OTHER RECEIVABLES				
Trade receivables	**57 449**	41 875	**5 284**	–
Prepayments	**638**	385	**435**	213
Trade and other receivables	**58 087**	42 260	**5 719**	213
Financial assets	**57 449**	41 875	**5 284**	–
Non-financial assets	**638**	385	**435**	213
9. PROPERTIES HELD FOR TRADING				
Properties acquired and held for trading	**20 535**	19 708	**–**	–

Properties held for trading comprise land held for sale at the phase two development at the Arabella Hotel and Spa estate in Kleinmond, which are measured at cost. The increase in the carrying amount relates to capitalised costs.

	Group		Company	
	2014 R'000	2013 R'000	2014 R'000	2013 R'000
10. CASH AND CASH EQUIVALENTS				
Comprises bank balances of current and call accounts	**187 203**	67 395	**476**	487

The Fund has an unutilised facility of R44 million with Nedbank.

	Valuation at 30 June 2013 R'000	Transfer R'000	Group Capital expenditure R'000	Fair value adjustment R'000	Valuation at 30 June 2014 R'000
11. NON-CURRENT ASSETS HELD FOR SALE					
The following investment properties have been identified for disposal in the next year					
Protea Hotel – The Winkler	41 000	–	1 076	(1 076)	**41 000**
Protea Hotel – Hazyview	39 000	–	763	(6 763)	**33 000**
Protea Hotel – The Richards	82 000	–	3 021	(17 021)	**68 000**
The Bayshore Inn	27 000	–	933	11 067	**39 000**
Protea Hotel – Imperial	29 000	–	789	211	**30 000**
Protea Hotel – Hluhluwe and Safaris	21 900	–	4 011	(7 011)	**18 900**
Kopanong Hotel and Conference centre	79 000	–	3 298	(298)	**82 000**
	318 900	–	13 891	(20 891)	**311 900**

The above investment properties have been identified for disposal and have therefore been classified as non-current assets held for sale. The above assets are available for immediate sale in their present condition. The assets have been available for sale for longer than 12 months, but due to economic conditions existing regarding the financing of acquisitions by prospective buyers, management have been unable to conclude sales successfully. Management remains committed to the disposal plan and actively searching for a buyer at the above fair value price. The properties are all profitable but considered non-core to the Fund and as such have been placed on the disposal list.

Measurement of fair value

(i) Fair value hierarchy

Non-current assets held for sale (Investment properties) were independently valued at 30 June 2014. The valuation of the portfolio was performed by Mr B van Vuuren, Professional Associate Valuer, from JHI (Gensec Property Services Limited). The valuations are done on an annual basis on the entire portfolio of investment properties.

The fair value measurement for the investment properties of R20,9 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Hierarchy levels

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

(ii) Level 3 fair value	2014 R'000
Reconciliation	
Balance as at 1 July 2013	**318 900**
Capital expenditure	**13 891**
Gains included in "Fair value adjustments"	
– Unrealised changes in fair value	**(20 891)**
Balance as at 30 June 2014	**311 900**

11. NON-CURRENT ASSETS HELD FOR SALE *(continued)*

(iii) Valuation technique and significant unobservable inputs

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, together with its movables, operating equipment and the business, taking into account expected rental growth rates, void periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a hotel property, its movables, operating equipment and hotel operation, its location and lease terms.	– Expected rental/hotel net profit growth varies between a decrease of 2.9% and a growth of 262.6%. The weighted average growth rate applied in the rental income/hotel net profit (excluding Kopanong) 4.2%. The expected Kopanong rental income will increase by 262.6% as a result of a new tenant generating additional variable rental. – Void periods (average is nil); – Risk-adjusted discount rates varies between 14.00% and 15.00%, with a weighted average discount rate of 14.89%.	The estimated fair value would increase/(decrease) if: – expected rentals/hotel net profit growth were higher/(lower); – Void periods (nil); – Risk-adjusted discount rates were lower/(higher).

	Group		Company	
	2014 R'000	2013 R'000	**2014 R'000**	2013 R'000
12. 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 – 138 149 717 (2013: 137 237 530) ordinary shares of R0,0001 each	**13,8**	13,7	**13,8**	13,7
B shares – 138 149 717 (2013: 137 237 530) ordinary shares of R0,0001 each	**13,8**	13,7	**13,8**	13,7
	27,6	27,4	**27,6**	27,4
Shares held in treasury (HPF Employee Incentive Trust)				
B shares – 1 969 710 ordinary shares of R0,0001 each	**(0,2)**	–	**–**	–
Issued shares less shares held in treasury (HPF Employee Incentive Trust)				
A shares – 138 149 717 (2013: 137 237 530) ordinary shares of R0,0001 each	**13,8**	13,7	**13,8**	13,7
B shares – 136 180 007 (2013:137 237 530) ordinary shares of R0,0001 each	**13,6**	13,7	**13,8**	13,7
	27,4	27,4	**27,6**	27,4

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
12. SHARE CAPITAL AND SHARE PREMIUM *(continued)*				
Reconciliation of the number of shares in issue				
Opening balance				
A shares	**137 237**	124 761	**137 237**	124 761
B shares	**137 237**	124 761	**137 237**	124 761
	274 474	249 522	**274 474**	249 522
Issued during the year				
A shares – specific issue	**913**	12 476	**913**	12 476
B shares – specific issue	**913**	12 476	**913**	12 476
	1 826	24 952	**1 826**	24 952
Shares held in treasury				
A shares	**–**	–	**–**	–
B shares	**(1 970)**	–	**–**	–
	(1 970)	–	**–**	–
Closing balance				
A shares	**138 150**	137 237	**138 150**	137 237
B shares	**136 180**	137 237	**138 150**	137 237
	274 330	274 474	**276 300**	274 474

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, 2008 and the requirements of the JSE Limited.

On 9 April 2014, 200 timeshare weeks were acquired in Champagne Share Block Limited for a consideration of R7,3 million. The consideration was funded through the issue of 346 968 A- and 346 968 B-linked units at a price of R15,80 and R5,20 respectively. On 28 May 2014, 3 additional sectional title units were acquired in the Waterclub Court Body Corporate (Radisson Blu Waterfront Hotel) for a consideration of R11,7 million. The consideration was funded through the issue of 565 219 A- and 565 219 B-linked units at a price of R15,60 and R5,10 respectively.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
Share premium				
Balance at beginning of year	**476 172**	392 102	**476 172**	392 102
Premium on share issue	**5 194**	84 321	**5 194**	84 321
Share issue expenses	**(77)**	(251)	**(77)**	(251)
Balance at end of year	**481 289**	476 172	**481 289**	476 172
Share capital and share premium	**481 316**	476 199	**481 316**	476 199
Shares held in treasury				
During the current year, the HPF Employee Incentive Trust acquired 1 969 710 B-linked units. As the Trust has to be consolidated in terms of IFRS 10, the following shares are considered to be treasury shares in terms of IFRS which are measured and carried at the par value of the shares:				
Opening balance	**–**	–		
Acquired during the year (1 969 710 at par of R0.0001)	**–**	–		
Closing balance	**–**	–		

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
13. FAIR VALUE RESERVE				
Fair valuation of investment properties	**429 250**	275 478	–	–
Fair valuation of interest rate swap	**(122 008)**	(134 809)	–	–
	307 242	140 669	–	–
The non-distributable reserve encompasses all adjustments to the fair values of investment properties and financial instruments.				
14. DEBENTURES				
Issued and maturity value	**2 325 186**	2 314 441	**2 335 181**	2 314 441
A-linked units – 138 149 717 (2013: 137 237 530) debentures at R9,40 each	**1 298 607**	1 290 033	**1 298 607**	1 290 033
B-linked units – 138 149 717 (2013: 137 237 530) debentures at R9,40 each	**1 298 607**	1 290 033	**1 298 607**	1 290 033
Balance of unamortised debenture discount on B-linked units	**(262 033)**	(265 625)	**(262 033)**	(265 625)
B-linked unit – 1 969 710 debentures held by Trust	**(9 995)**	–	**–**	–

	Group and Company 2014 A units	Group and Company 2014 B units	Group and Company 2013 A units	Group and Company 2013 B units
Reconciliation				
Opening balance	**1 290 033**	**1 024 408**	1 172 757	951 528
Debentures issued: 346 968 (2013: 12 476 139) at R9,40 (2013: R9,40) and R5,20 (2013: R5,39) respectively	**3 261**	**1 804**	117 276	67 245
Debentures issued: 565 219 at R9,40 and R5,10 respectively	**5 313**	**2 882**	–	–
Debenture discount amortisation	**–**	**7 480**	–	5 635
	1 298 607	**1 036 574**	1 290 033	1 024 408
Balance of unamortised debenture discount on B-linked units	**–**	**262 033**	–	265 625
Closing balance	**1 298 607**	**1 298 607**	1 290 033	1 290 033

On 9 April 2014, 200 timeshare weeks were acquired in Champagne Share Block Limited for a consideration of R7,3 million. The consideration was funded through the issue of 346 968 A- and B-linked units at a price of R15,80 and R5,20 respectively. On 28 May 2014, additional sectional title units were acquired in the Radisson Blu Waterfront Hotel for a consideration of R11,7 million. The consideration was funded through the issue of 565 219 A- and B-linked units at a price of R15,60 and R5,10 respectively.

The B linked -units were issued at a discount to its maturity value of R9,40. The result is that the discount will be amortised over the period in order to raise the debenture liability back to its maturity value at expiry date, being 10 February 2036. The current amount amortised amounted to R7,5 million (2013: R5,6 million). Refer note 19.

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 5th anniversary of the date on which the special resolution was passed. The debenture trust deed is available for inspection by linked unit holders or their duly authorised agents at the registered office of the company.

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

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

Debentures held in treasury

During the current year, the HPF Employee Incentive Trust acquired 1 969 710 B-linked units. As the Trust has to be consolidated in terms of IFRS 10, the following debentures are considered to be debentures held in treasury which are measured and cost:

		Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
14. DEBENTURES *(continued)*					
Opening balance		–	–	–	–
Acquired during the year at cost (1 969 710 at R5,07):		**9 995**	–	–	–
Closing balance		**9 995**	–	–	–
15. INTEREST-BEARING LIABILITIES					
Non–current	Interest rate				
ABSA Bank Limited					
– Loan B – expired: June 2015	3 month JIBAR+2,47%	–	150 000	–	–
– Loan C – expired: June 2016	3 month JIBAR+2,84%	–	100 000	–	–
		–	250 000	–	–
Nedbank Limited					
– Loan 1 – expiry: July 2015	3 month JIBAR+2,9%	**176 300**	176 300	–	–
– Loan 2 – expiry: Oct 2019	3 month JIBAR+2,8%	**346 077**	346 077	–	–
– Loan 3 – expiry: Oct 2018	3 month JIBAR+2,85%	**30 250**	30 250	–	–
– Loan 4 – expiry: Feb 2018	3 month JIBAR+2,38%	**150 000**	150 000	–	–
– Loan 5 – expiry: June 2016	3 month JIBAR+2,84%	**150 000**	150 000	–	–
– Loan 6 – expiry: Feb 2018	3 month JIBAR+2,38%	**50 000**	–	–	–
		902 627	852 627	–	–
Domestic Medium-Term Note Programme					
– Secured note HPF01 – expiry: April 2016	3 month JIBAR+1,82%	**150 000**	150 000	**150 000**	150 000
– Unsecured note HPF02 – expiry: April 2015	3 month JIBAR+2,4%	–	40 000	–	40 000
– Unsecured note HPF03 – expiry: April 2016	3 month JIBAR+2,7%	**80 000**	80 000	**80 000**	80 000
– Secured note HPF04 – expiry: Feb 2017	3 month JIBAR+2,0%	**300 000**	–	**300 000**	–
– Secured note HPF04.1 – expiry: Feb 2017	3 month JIBAR+2,0%	**100 000**	–	**100 000**	
– Secured note HPF05 – expiry: Feb 2017	3 month Fixed 9,89%	**200 000**	–	**200 000**	–
		830 000	270 000	**830 000**	270 000
Total non-current interest-bearing liabilities		**1 732 627**	1 372 627	**830 000**	270 000
Current					
ABSA Bank Limited					
– Loan A – expired: June 2014	3 month JIBAR+2,05%	–	200 000	–	–
– Loan D – Revolving loan – expired: June 2014	3 month JIBAR+2,05%	–	–	–	–
		–	200 000	–	–
Domestic Medium-Term Note Programme					
– Unsecured note HPF02 – expiry: April 2015	3 month JIBAR+2,4%	**40 000**	–	**40 000**	–
		40 000	–	**40 000**	–
Total current interest-bearing liabilities		**40 000**	200 000	**40 000**	–
Total interest-bearing liabilities		**1 772 627**	1 572 627	**870 000**	270 000
Total interest-bearing liabilities payable in the following annual financial years:					
30 June 2014		–	200 000	–	–
30 June 2015		**40 000**	190 000	**40 000**	40 000
30 June 2016		**556 300**	656 300	**230 000**	230 000
30 June 2017		**600 000**	–	**600 000**	–
30 June 2018		**230 250**	150 000	–	–
30 June 2019		**346 077**	376 327	–	–
		1 772 627	1 572 627	**870 000**	270 000

15. INTEREST-BEARING LIABILITIES *(continued)*

The Nedbank loans 1 – 3 of R552,6 million are secured in terms of a first mortgage bond over investment properties valued at R1,67 billion.

In terms of the JSE Limited Listings requirements for REITS, the company's borrowings, excluding the debentures, are limited to 60% of the valuation of the group's property portfolio. The current limit of the borrowing powers in terms of the aforementioned requirements, amounts to R2,89 billion, of which R1,77 billion has been utilised.

Corporate Bonds (DMTN Programme)
The fund registered a DMTN Progamme of R2 billion in early 2013, with the intention to diversify a portion of its funding from generic bank debt to debt capital markets.

On 17 February 2014, the Fund placed R300 million secured notes at a variable rate of 3 month JIBAR plus 2,00%, and R200 million secured notes at a fixed rate of 9.89%. The total funds of R500 million were raised in order to settle all the facilities with ABSA Bank Limited.

On 23 April 2014, the Fund placed R100 million secured notes at a variable rate of 3 month JIBAR plus 2.00%. These funds will be utilised for future capital expenditure on the current investment property portfolio.

The Secured notes HPF 01, 04 – 06, together with Nedbank loans 4 – 6 are secured in terms of a mortgage bond over investment properties with a market value of R3,15 billion and a cession of leases and rentals in respect of the bonded properties.

The unsecured note HPF 02 of R40 million expires in April 2015 and the Fund is considering its options in terms of the refinancing thereof.

The Nedbank and Secured note loans are subject to the following loan covenants:

Loan to value (LTV)
The required LTV as at 30 June 2014, is required to be 40% or lower.

As at 30 June 2014, the Group LTV was 37% (2013: 34%), and the Hospitality Guarantee SPV (shared security between Nedbank and Secured notes) was 35% (2013: 32%).

Loan to value (LTV) including treasury transaction exposure
The required LTV as at 30 June 2014, is required to be 45% (2013: 50%) or lower.

As at 30 June 2014, the Group LTV was 37% (2013: 35%), and the Hospitality Guarantee SPV (shared security between Nedbank and Secured notes) was 35% (2013: 33%).

Interest cover ratio (ICR)
The ICR requirement for the year ended 30 June 2014, is a minimum of 2,00 times.

For the year ended 30 June 2014 the Group ICR cover was 2,64 (2013: 2,47) times, and the Hospitality Guarantee SPV (shared security between Nedbank and the secured notes) was 3,16 (2013: 2,54) times.

Measurement of fair value

(i) Fair value hierarchy

The group recognises and measures its long-term loans at amortised cost. The fair value of the loans were determined using both internal and external inputs.

The internal inputs applied, related to the interest rates contracted with the various sources of funding, whereas the internal inputs applied, related to the weighted average cost of capital (WACC) 9.14% (2013: 8.56%) determined for the group.

As both internal and external data was used to determine the fair value, the fair value measurement have been classified under Level 2;

Hierarchy levels

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs for assets or liabilities that are not based on observable market data.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
15. INTEREST-BEARING LIABILITIES *(continued)*				
(ii) Level 2 fair value				
Non-current				
Absa Bank Limited				
– Loan B – expired: June 2015	–	147 154	–	–
– Loan C – expired: June 2016	–	98 236	–	–
Nedbank Limited				
– Loan 1 – expiry: July 2015	**175 657**	174 489	–	–
– Loan 2 – expiry: Oct 2019	**339 839**	341 930	–	–
– Loan 3 – expiry: Oct 2018	**29 834**	29 807	–	–
– Loan 4 – expiry: Feb 2018	**146 106**	148 041	–	–
– Loan 5 – expiry: June 2016	**148 923**	147 706	–	–
– Loan 6 – expiry: Feb 2018	**48 702**	–	–	–
Domestic Medium-Term Note Programme				
– Secured note HPF01 – expiry: April 2016	**148 632**	145 928	**148 632**	145 928
– Unsecured note HPF02 – expiry: April 2015	–	39 896	–	39 896
– Unsecured note HPF03 – expiry: April 2016	**80 579**	79 707	**80 579**	79 707
– Secured note HPF04 – expiry: Feb 2017	**293 485**	–	**293 485**	–
– Secured note HPF04.1 – expiry: Feb 2017	**97 828**	–	**97 828**	–
– Secured note HPF05 – expiry: Feb 2017	**192 438**	–	**192 438**	–
Current				
Absa Bank Limited				
– Loan A – expired: June 2014	–	197 221	–	–
Domestic Medium-Term Note Programme				
– Unsecured note HPF02 – expiry: April 2015	**40 396**	–	**40 396**	–
Total fair value of loans	**1 742 419**	1 550 115	**853 358**	265 531

(iii) Valuation technique

Discounted Cash Flows (DCF): The valuation model considers the present value of the settlement of the current loan together with the future interest payments. The future cash flows are determined using the contracted rates with the various sources of funding for the interest payments, together with the expected settlement amounts of the loan. The expected cash flows are discounted using the group's weighted average cost of capital.

The weighted average cost of capital is determined as the finance cost divided by the average borrowings during the year.

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
Sensitivity analysis				
Fair value sensitivity				
– 0.50% change in interest rate	**1 521**	515	**1 779**	311
– 1.00% change in interest rate	**2 998**	1 039	**3 518**	621
– 1.50% change in interest rate	**4 429**	1 570	**5 218**	931
Cash flow sensitivity				
– 0.50% change in interest rate	**7 830**	7 863	**3 317**	1 350
– 1.00% change in interest rate	**15 659**	15 726	**6 633**	2 700
– 1.50% change in interest rate	**23 489**	23 589	**9 950**	4 050

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
16. DEFERRED TAXATION LIABILITY				
With effect of 2 July 2013, the company and controlled property subsidiaries converted to Real Estate Investment Trusts (REIT). As a result, section 25BB of the Income Tax Act will apply to qualifying REIT income and expenses. The new legislation provides that capital gains on sale of investment properties are disregarded and previous building allowances claimed will be recouped at 28%. All rental income and dividends from property subsidiaries will be taxed at 28% and any dividends paid from these taxable profits, will be deductible at 28%. Any amount received from the disposal of financial instruments will be taxed at 28%. As HPF has not currently decided to pay out capital profits as a dividend, income tax could arise on recoupment when investment properties are sold. This income tax is shielded by an accumulated loss.				
Deferred tax balances				
– Provisions	**672**	–	–	–
– Prepayments	**(57)**	–	–	–
– Fixed assets	**(105)**	–	–	–
– Recoupment of capital allowances	**(161 104)**	(192 396)	–	–
Deferred tax liability before assessed losses	**(160 594)**	(192 396)	–	–
– Assessed losses	**160 594**	192 396	–	–
Net deferred tax asset	**–**	–	–	–
A deferred tax asset has been recognised for all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The total assessed losses for the group amounts to R734,3 million (2013: R692,6 million). Only R573,6 million of the total assessed losses has been utilised to raise a deferred tax asset and the remainder of the assessed loss has not been recognised as it is not deemed probable that there will be future profits against which the assessed loss can be utilised.				
Movement in deferred tax balances				
Balance at the beginning of the year	**–**	36 730	–	–
– Reversal of CGT due to REIT status	**–**	(36 730)	–	–
Temporary differences				
– Provisions	**(626)**	–	–	–
– Prepayments	**(8)**	–	–	–
– Fixed assets	**67**	–	–	–
– Under provision of prior year deferred tax	**1 077**	–	–	–
– Recoupment of capital allowances	**31 292**	(192 396)	–	–
– Assessed tax losses	**(31 802)**	192 396	–	–
Closing balance	**–**	–	–	–
Assessed losses available				
– Recoupments of capital allowances	**(575 370)**	(687 129)	–	–
– Assessed tax losses	**734 319**	692 596	–	–
Unrecognised assessed losses	**158 949**	5 467	–	–

	Group		Company	
	2014	2013	**2014**	2013
	R'000	R'000	**R'000**	R'000
17. TRADE AND OTHER PAYABLES				
Trade payables	**79 668**	61 025	**1 654**	938
Tenant deposits	**5 748**	3 958	**–**	–
VAT payable	**2 501**	2 168	**–**	–
	87 917	67 151	**1 654**	938
Financial liabilities	**85 416**	64 983	**1 654**	938
Non-financial liabilities	**2 501**	2 168	**–**	–
18. OPERATING PROFIT				
Operating profit is stated after charging the following:				
Auditors' remuneration	**1 172**	1 033	**145**	121
– Audit fee	**970**	937	**145**	121
– Audit fee – prior year under provision	**50**	–	**–**	–
– Audit fee – non-audit related	**152**	96	**–**	–
Bad debts	**(1 508)**	48	**–**	–
Debt raising fee amortisation	**6 844**	3 616	**1 868**	–
Debt cancellation fee	**4 900**	–	**–**	–
Defined contribution plan expense	**478**	319	**–**	–
Executive directors' and employee remuneration	**14 252**	15 308	**–**	–
Management fee paid	**152**	194	**1 239**	1 624
Non-executive directors' remuneration (refer note 28.3)	**2 294**	1 532	**2 294**	1 532
Property and other expenses were incurred to generate rental income.				
19. NET FINANCE COST/INCOME				
Finance income				
Interest income	**4 371**	1 819	**16**	94
Interest received from subsidiary and Trust	**–**	–	**37 617**	202 353
	4 371	1 819	**37 633**	202 447
Dividend income				
Dividend income from subsidiary	**–**	–	**254 822**	–
Finance costs				
Interest-bearing liabilities	**150 412**	134 139	**37 195**	4 047
Debenture discount amortisation – refer note 14	**7 480**	5 635	**7 480**	5 635
20. RECOUPMENT OF DEBENTURE INTEREST				
Recoupment of debenture interest	**531**	6 130	**531**	6 130

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.

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
21. TAXATION				
Current tax – subsidiary	**181**	1 158	–	–
Deferred taxation expense	–	(36 730)	–	–
	181	(35 572)	–	–
Deferred taxation expense comprise of the following:				
– Reversal of CGT due to REIT status	–	(36 730)	–	–
Reconciliation of taxation rate				
Current taxation rate	**28.0%**	28.0%	–	–
Fair valuation of investment property	**(38.0%)**	(29.7%)	–	–
Fair valuation of swaps	**(3.2%)**	(3.0%)	–	–
Gain on bargain purchase price	–	(1.0%)	–	–
Transaction costs	–	0.3%	–	–
Impairment of goodwill	**13.2%**	5.6%	–	–
Change in tax rate	–	(17.5%)	–	–
Temporary differences	**0.2%**	–	–	–
Effective taxation rate	**0.2%**	(17.3%)	–	–

The company 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. However, current tax expense of R134k is payable by HPF Management (Pty) Limited, a subsidiary in the group, due to the non deductibility of leave pay and bonus provisions.

	Group 2014 Gross	Group 2014 Net of tax	Group 2013 Gross	Group 2013 Net of tax
22. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT				
Profit for the year	**105 978**	**105 978**	235 797	235 797
Adjustments: Debenture interest	**240 014**	**240 014**	200 184	200 184
Earnings (linked units)	**345 992**	**345 992**	435 981	435 981
Adjustments:				
Gain on bargain purchase	–	–	(7 615)	(7 615)
Fair value – investment properties revaluation	**(153 772)**	**(153 772)**	(218 441)	(255 172)
Fair value – straight-line rental income	**(3 102)**	**(3 102)**	(295)	(295)
Goodwill impairment	**53 400**	**53 400**	41 400	41 400
Headline earnings (linked units)	**242 518**	**242 518**	251 030	214 299
HPF Employee Incentive Trust effects	**(285)**	**(285)**		
Fair value – interest rate swaps	**(12 801)**	**(12 801)**	(22 020)	(22 020)
Transaction costs on business combinations	–	–	1 975	1 975
Straight-line rental income	**3 102**	**3 102**	295	295
Debenture discount amortisation	**7 480**	**7 480**	5 635	5 635
Distributable earnings	**240 014**	**240 014**	236 915	200 184

	Group 2014 A units	B units	Total	Group 2013 A units	B units	Total
22. EARNINGS AND DISTRIBUTIONS PER LINKED UNIT *(continued)*						
Group						
Number of units (notes 12 and 14)	**138 149 717**	**136 180 007**	**274 329 724**	137 237 530	137 237 530	274 475 060
Weighted average number of units	**137 369 080**	**136 225 029**	**273 594 109**	129 273 310	129 273 310	258 546 620
Distribution per linked unit (cents)	**141,35**	**33,45**	**174,80**	134,63	18,08	152,71
Profit per linked unit (cents)	**126,46**	**126,46**	**252,92**	168,63	168,63	337,26
Headline earnings per linked unit (cents)	**88,64**	**88,64**	**177,28**	82,89	82,89	165,78
Profit per share (cents)	**38,74**	**38,74**	**77,48**	91,20	91,20	182,40

NOTES TO THE STATEMENTS OF CASH FLOWS	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
23. CASH GENERATED FROM/UTILISED IN OPERATIONS				
Profit/(loss) before taxation	**113 401**	205 734	**6 918**	(298)
Adjusted for:				
Net finance costs	**146 041**	132 320	**(438)**	3 953
Recoupment of debenture interest	**(531)**	(6 130)	**(531)**	(6 130)
Net debenture interest	**240 014**	200 184	**240 665**	200 184
Depreciation	**441**	382	**–**	–
Scrapping of furniture and equipment	**–**	–	**–**	–
Straight-lining accrual of rental income	**3 102**	295	**–**	–
Gain on bargain purchase	**–**	(7 615)	**–**	–
Fair-value adjustments	**(116 275)**	(199 356)	**–**	–
Cash generated before working capital changes	**386 193**	325 814	**246 614**	197 709
Changes in working capital	**4 939**	10 616	**(4 790)**	(3 105)
Increase in trade and other receivables	**(15 827)**	(18 904)	**(5 506)**	(3)
Increase/(decrease) in trade and other payables	**20 766**	29 520	**716**	(3 102)
	391 132	336 430	**241 824**	194 604
24. DISTRIBUTION TO UNIT HOLDERS				
Balance at beginning of year	**105 735**	62 051	**105 735**	62 051
Amount per statement of comprehensive income	**239 483**	194 054	**240 134**	194 054
Recoupment of distribution	**531**	6 130	**531**	6 130
Balance at end of year	**(118 142)**	(105 735)	**(118 414)**	(105 735)
	227 607	156 500	**227 986**	156 500
25. ACQUISITION AND DEVELOPMENT OF INVESTMENT PROPERTIES/NON-CURRENT ASSETS HELD FOR SALE				
Balance at beginning of year	**4 569 900**	3 861 855	**–**	–
Fair value adjustments	**153 772**	218 441	**–**	–
Bargain purchase price	**–**	7 615	**–**	–
Balance at end of year	**(4 827 900)**	(4 569 900)	**–**	–
	(104 228)	(481 989)	**–**	–
26. CAPITAL COMMITMENTS				
Authorised and committed	**99 771**	79 653	**–**	–

The capital expenditure will be funded from unutilised funding facilities.

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
27. MINIMUM LEASE RENTALS RECEIVABLE				
At 30 June the group had contracts with tenants for the following minimum lease rentals for periods between 0 and 18 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	**224 997**	239 479	–	–
Between one and five years	**706 612**	800 554	–	–
After five years	**1 392 553**	1 233 354	–	–
	2 324 162	2 273 387	–	–

28. RELATED PARTY TRANSACTIONS

28.1 Identity of related parties: Relationship

– HPF Properties (Pty) Limited	100% subsidiary
– HPF Management (Pty) Limited	100% subsidiary
– Hospitality Property Fund Managers (Pty) Limited	100% subsidiary
– NIB 35 (Pty) Limited	100% subsidiary
– Hosbrook Ventures (Pty) Limited	100% subsidiary
– Directors as listed	Directors
– Vexicure (Pty) Limited	80% subsidiary of Pan-African Capital Holdings (Pty) Limited, of which Mr Z Kubukeli is a director. HPF Properties (Pty) Limited owns a 5% shareholding in the company, and Mr AS Rogers and Mr R Asmal, as well as Mr Z Kubukeli are directors of the company. The company leased the Westin Cape Town hotel from the group.
– Ash Brook Investments 72 (Pty) Limited	HPF Properties (Pty) Limited owns 15% of the company, and both Mr W McIntyre (Chief Operating Officer at HPF) and Mr R Asmal are directors of the company.
– HPF Employee Incentive Trust	The HPF Employee Incentive Trust is a separate legal entity, which owns B-linked units in Hospitality Property Fund Limited. Key staff benefit structure.

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
28.2 Transactions				
Vexicure (Pty) Limited				
Rental received by group	**87 731**	70 077	–	–
Trade and other receivables	**1 476**	–	–	–
Trade and other payables	**14 493**	15 404	–	–
Tenant deposit and guarantee held as security on leases	**3 074**	3 074	–	–
Ash Brook Investments 72 (Pty) Limited				
Rental received by group	**43 588**	4 122	–	–
Trade and other receivables	**14 836**	10 194	–	–
Trade and other payables	**3 268**	–	–	–
Tenant deposit and guarantee held as security on leases	**1 746**	1 746	–	–
HPF Properties (Pty) Limited				
Interest received	–	–	**37 146**	202 352
Dividend received	–	–	**254 822**	–

	Group 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
28. RELATED PARTY TRANSACTIONS *(continued)*				
28.2 Transactions *(continued)*				
HPF Management (Pty) Limited				
Management fees paid	–	–	1 239	1 624
HPF Employee Incentive Trust				
– Long-term loan receivable	–	–	10 568	–
– Interest received	–	–	471	–
– Debenture interest paid	–	–	651	–

All transactions were on an arm's length basis.

	Directors' fees R'000	Total R'000
28.3 Directors' remuneration		
Group and company – 30 June 2014		
Non-executive		
DG Bowden	250	250
KH Abdul-Karrim	278	278
L de Beer	250	250
SA Halliday	278	278
ZN Kubukeli	268	268
GA Nelson	238	238
Z Ntwasa	230	230
WC Ross	290	290
A Soni	212	212
	2 294	2 294

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

	Directors fees R'000	Salaries R'000	Bonus paid – F2013 R'000	Bonus paid – F2014 R'000	Total R'000
R Asmal	–	1 731	814	364	2 909
GA Nelson	–	–	1 081	–	1 081
AS Rogers	–	2 394	962	503	3 859
	–	4 125	2 857	867	7 849

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

Except for the executive directors, the company has no prescribed officers.

"Bonus paid – F2013" relates to performance criteria for the 2013 financial year, whereas "Bonus paid – F2014" represents 50% of the qualifying performance bonus for the current financial year. Final bonus payments will be made in September 2014 once the performance criterias are finalised. Provisions of R364k and R503k regarding this bonus payment have been made for Mr R Asmal and Mr AS Rogers, respectively.

	Directors' fees R'000	Total R'000
28. RELATED PARTY TRANSACTIONS *(continued)*		
28.3 Directors remuneration *(continued)*		
Group and company – 30 June 2013		
Non-executive		
DG Bowden	177	177
Y Aminzadeh	69	69
KH Abdul-Karrim	237	237
L de Beer	219	219
ZN Kubukeli	230	230
MB Madumise	185	185
WJ Midgley	126	126
WC Ross	289	289
	1 532	1 532

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

	Directors' fees R'000	Salaries R'000	Bonus paid R'000	Total R'000
R Asmal	–	1 437	403	1 840
GA Nelson	–	2 339	460	2 799
AS Rogers	–	1 987	370	2 357
	–	5 763	1 233	6 996

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

Except for the executive directors, the company has no prescribed officers.

The above bonuses were paid in September 2012 and relates to performance criteria relating to the 2012 financial year. At 30 June 2013, bonus provisions were raised amounting to R Asmal: R813k; GA Nelson: R1 129k and AS Rogers: R977k. These bonuses will be paid in September 2013.

29. 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 group enters into derivative transactions such as interest rate swaps in order to help manage the financial risks arising from the group's activities as required by debt providers. 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.

29.1 Interest rate risk

The audit committee continuously monitors the fund's exposure to interest rate volatility and determines the interest rate policy in this regard. 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.

29. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *(continued)*

29.1 Interest rate risk *(continued)*

The group's debt carries both fixed and floating interest rates, however the group's current policy is to keep 50% – 60% of its borrowings on a fixed basis. Interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure. The interest rate swaps are not designated as cash flow hedges for accounting purposes and thus any changes to the interest rate at the date of reporting would affect profit or loss but, as these gains or losses are not available for distribution, they would be transferred to a fair value reserve.

At the reporting date, the following interest rate swap agreements were in place:

	Nominal rate	Commence-ment date	Maturity	Nominal value R'000	Fair value at 30 June 2014 R'000	Fair value at 30 June 2013 R'000
Absa Bank Limited – Swap 1	7,75%	Jun-10	Cancelled	346 670	–	(7 846)
Absa Bank Limited – Swap 2	7,98%	Jun-10	Cancelled	346 670	–	(13 220)
Nedbank Limited – Swap 1	6,00 – 9,09%	Oct-13	Sep-16	150 000	**1 825**	–
Nedbank Limited – Swap 2	6,40%	Dec-13	Oct-16	150 000	**(520)**	–
Rand Merchant Bank – Swap 1	7,96%	Dec-13	Jul-16	346 667	**(7 844)**	–
Rand Merchant Bank – Swap 2	6,65% – 9,20%	Feb-14	Feb-16	250 000	**(1 726)**	–
					(8 265)	(21 066)

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

	2014 R'000	2013 R'000
Sensitivity analysis		
Fair value sensitivity		
– 0.50% change in interest rate	**6 256**	4 900
– 1.00% change in interest rate	**12 312**	9 800
– 1.50% change in interest rate	**18 277**	14 700
Cash flow sensitivity		
– 0.50% change in interest rate	**6 593**	4 300
– 1.00% change in interest rate	**3 297**	8 600
– 1.50% change in interest rate	**814**	12 900

29.2 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet a financial commitment as it falls due. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments. The group's policy is to 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 group regularly reviews the maturity profile of its financial liabilities and seeks to avoid a concentration of maturities through the regular replacement of facilities and by using a selection of maturity dates. Re-financing risk may be reduced by re-borrowing prior to the contracted maturity date, effectively switching liquidity risk for market risk.

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

	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
29. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *(continued)*				
29.2 Liquidity risk *(continued)*				
Group 30 June 2014				
Interest-bearing liabilities	**1 772 627**	**40 000**	**1 732 627**	**–**
Derivative liability	**8 265**	**–**	**8 265**	**–**
Trade and other payables	**85 416**	**85 416**	**–**	**–**
Debentures	**2 325 186**	**–**	**–**	**2 325 186**
Debenture interest payable	**118 142**	**118 142**	**–**	**–**
	4 309 636	**243 558**	**1 740 892**	**2 325 186**

	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Group 30 June 2013				
Interest-bearing liabilities	1 572 627	200 000	1 372 627	–
Derivative liability	21 066	7 846	13 220	–
Trade and other payables	64 983	64 983	–	–
Debentures	2 314 441	–	–	2 314 441
Debenture interest payable	105 735	105 735	–	–
	4 078 852	378 564	1 385 847	2 314 441

	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Company 30 June 2014				
Trade and other payables	**1 654**	**1 654**	**–**	**–**
Debentures	**2 335 181**	**–**	**–**	**2 335 181**
Interest-bearing liabilities	**870 000**	**40 000**	**830 000**	**–**
Debenture interest payable	**118 414**	**118 414**	**–**	**–**
	3 325 249	**160 068**	**830 000**	**2 335 181**

	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Company 30 June 2013				
Trade and other payables	938	938	–	–
Debentures	2 314 441	–	–	2 314 441
Interest-bearing liabilities	270 000	–	270 000	–
Debenture interest payable	105 735	105 735	–	–
	2 691 114	106 673	270 000	2 314 441

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

The company's borrowings are limited to 60% in terms of the JSE Listings Requirements for REITS.

	2014 R'000	2013 R'000
29. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *(continued)*		
29.2 Liquidity risk *(continued)*		
The company's utilised borrowing capacity at 30 June can be summarised as follows:		
Property valuation	**4 827 900**	4 569 900
60%/65% thereof	**2 896 740**	2 970 435
Effective borrowings	**1 772 627**	1 572 627
Unutilised borrowing capacity	**1 124 113**	1 397 808
Facilities available in terms of agreements at 30 June	**1 893 550**	1 726 550
Undrawn facilities	**120 923**	153 923
Gearing ratio	**36,7%**	34,4%

29.3 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.

Concentration risk	Properties	Income %	Receivable R'000
– Tenant 1	8	20	908
– Tenant 2	1	20	1 476
– Tenant 3	1	20	–
– Tenant 4	1	10	–
– Tenant 5	1	8	–
– Balance	14	22	1 912
	26	100	4 296

In terms of the entity structure, there is a concentration risk in terms of the revenues earned and the resultant receivables. 78% of revenues earned for the current year was generated from 12 leased properties. Management receives comprehensive monthly management reports and attends the monthly meeting with the hotel operators in order to monitor performance and identify elements of credit risk.

29.3.1 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 2014 R'000	Group 2013 R'000	Company 2014 R'000	Company 2013 R'000
Trade and other receivables				
– Tenant and related receivables	**57 449**	41 875	–	–
	57 449	41 875	–	–
Tenant deposits	**5 748**	2 345	–	–
Bank guarantees	**44 060**	42 628	–	–
Equity pledged	–	1 614	–	–

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

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

29. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *(continued)*

29.3 Credit risk *(continued)*

29.3.2 Impairment losses

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

	Gross carrying value Group 2014 R'000	Gross carrying value Group 2013 R'000	Impairment Group 2014 R'000	Impairment Group 2013 R'000
Current (< 30 days)	**57 226**	36 070	–	–
Past due but not yet impaired (> 30 days)	**110**	209	–	–
Past due and impaired (> 60 days)	**113**	5 596	–	(48)
Total	**57 449**	41 875	–	(48)

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

	Group 2014 R'000	Group 2013 R'000
Balance at the beginning of the year	**4 770**	3 890
Reversal of provisions and recoveries	**(6 585)**	(4 478)
Provisions raised	**1 815**	5 310
Impairment loss recognised	–	48
Balance at the end of the year	–	4 770

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.

29.4 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 the JSE Limited Listings requirements 60% of assets, the current strategy is to maintain debt levels below 40%.

29.5 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 those noted are substantially the same as the carrying values reflected on the statement of financial position. The total carrying value of financial liabilities held for trading by the group is R8,3 million (2013: R21,1 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 R58,1 million (2013: R42,3 million) and of those held by the company is R3 793 million (2013: R3 161 million). The total carrying value of financial liabilities at amortised cost held by the group is R4 312 million (2013: R4 061 million) and of those held by the company is R3 325 million (2013: R2 692 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. Linked debentures are therefore carried at amortised cost.

Derivatives

The fair value of interest rate swaps is based on broker quotes. These 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.

29. FINANCIAL RISK MANAGEMENT AND FURTHER FINANCIAL INSTRUMENT DISCLOSURES *(continued)*

29.5 Carrying values and fair values of financial instruments *(continued)*

Non-derivative financial liabilities

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

Trade and other receivables

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

Fair value hierarchy

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

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

	Level 1	Level 2	Level 3	Total
30 June 2014				
Derivative financial liabilities	–	8 265	–	8 265
	–	8 265	–	8 265
30 June 2013				
Derivative financial liabilities	–	21 066	–	21 066
	–	21 066	–	21 066

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

30. SHARE-BASED PAYMENT ARRANGEMENTS

On 30 May 2013, a "Trust" named the HPF Employee Incentive Trust was established. It is imperative for the continued success of the Fund that its employees and those of its subsidiaries remain in their employment. Accordingly, the Fund implemented a long-term incentive scheme with the main purpose and intention of retaining these employees by providing them with an opportunity to share in the benefits of the equity of the Fund and the related distributions. The Trust is registered and considered a separate legal entity.

The Fund has three representatives on the board of Trustees, who in turn receive no remuneration for their services.

The Trustees' responsibility and decision-making is dictated by the "Deed of Trust", which includes the allocation of the shares acquired in the Fund to specific staff members.

Under the new accounting standard IFRS 10: Consolidations, the group has control over the Trust and should therefore consolidated the Trust as part of the consolidated financial statements.

Mechanics of the Trust

The Fund provides a loan to the Trust at the minimum official rate of interest under Section 7 of the Income Tax Act, 58 of 1962. The proceeds of the loan will be utilised to acquire a number of B-linked units through the use of a loan from the Fund in the Fund at the relevant market price on the JSE Limited. As soon as possible after the B-linked units have been acquired by the Trust, the Allocation Committee shall instruct the Trustees to create new Trust Units, such that the number of Trust Units will at all times be equal to the number of the B-linked units held by the Trust, and shall confirm to the Trustees in writing the number of the Trust Units so created that are available for allocation to qualifying employees in accordance with the terms of the Trust Deed. The Trust Units and accordingly the rights, shall be allocated to the qualifying employees in terms of this Trust Deed for no monetary consideration.

Key staff is to be identified and allocated a portion of the units acquired. In order to qualify for the receipt of this benefit, the staff member has to be in the employment of the Fund for a set period when the benefit will be settled as agreed with the employees. The loan advanced by the Fund, bears interest at Prime less 2.5% (which is the same rate as the minimum rate under section 7 of the Income Tax Act, 58 of 1962) on the loan amount outstanding. Distributions received by the Trust from the Fund will be used to settle the interest that the loan bears, as well as the capital portion of the loan where possible. The Trust Units vest in equal parts over a period of 3 years with the first tranche vesting on 30 September 2016. At the time of vesting, beneficiaries have the option to take up their portion of B-linked units at cost, plus outstanding loan interest, less distribution payments received towards the loan. The current Trust Units were acquired during 2013 at an average cost of R5,07 each.

30. SHARE-BASED PAYMENT ARRANGEMENTS *(continued)*

The share-based payment "scheme" is considered a share appreciate rights (SAR's) cash-settled scheme based on the appreciation of the B-linked unit.

Trustees	*Position in Fund*
Mr DG Bowden	Chairman of the Board of Directors
Mr R Asmal	Financial Director
Mr GA Nelson	Non-executive director

Tranche 1

During the current year, a loan of R10 million was advanced to the Trust by the Fund in order to facilitate the acquisition of 1 969 710 B-linked units at an average price of R5,07.

Terms

- Interest rate: Prime less 2,5% (reflective of the minimum interest rate allowed by the South African Revenue Services);
- Loan amount: R10 million;
- Vesting period: three years with settlement between 2016 to 2018 in three equal instalments;
- Grant date: 29 November 2013;
- Grant date value: R5,50 per B-linked unit;

The SAR's have been measured using the ruling market price at measurement date, which is considered the fair value.

Value of the Share Appreciation Rights	*30 June 2014*
Fair value	5,20
Grant date value:	5,50
Total	(0,30)
Total B-linked units (all allocated):	1 969 710
Total liability recognised to staff:	–

As no appreciation between grant date and measurement date occurred, no expense and liability was recognised at 30 June 2014.

Allocation of SAR's at 30 June 2014	*Units*	*Value of SAR*
– Mr R Asmal	395 913	–
– Mr AS Rogers	547 580	–
– Other staff members	1 026 217	–
	1 969 710	–

Loan receivable by company	*30 June 2014*
– Carrying value of the loan to the Trust	10 568
– Fair value of the loan to the Trust	8 714

The fair value of the loan was determined based on the Discounted Cash Flow (DCF) method, taking into account the carrying value of the loan as stated above, future interest cash flows and the groups' weighted average cost of capital (WACC) as the discount factor.

31. 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.

32. SUBSEQUENT EVENTS

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

33. OPERATING SEGMENTS

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

- Fixed lease agreements – lease agreements where the major portion of the rental is fixed.
- F&V lease agreements – lease agreements comprise approximately 50% initial fixed lease rental, with the remainder being a variable rental equivalent to 90% – 98% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after deducting the fixed lease portion.
- Variable lease agreements – rentals are based on the EBITDA of the hotel.
- Head office – although the head office does not generate revenue directly, the CEO reviews and manages head office as a separate business segment.

Other operations include the Funds administrative and finance costs. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2014 or 2013.

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

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

R'000	Fixed lease agreements	F & V lease agreements	Variable lease agreements	Head office	Total consolidated position
Statement of Comprehensive Income – 30 June 2014					
Segment revenue	**121 091**	**281 028**	**24 144**	**13**	**426 276**
Expenditure	**–**	**–**	**–**	**(40 524)**	**(40 524)**
Segment profit/(loss)	**121 091**	**281 028**	**24 144**	**(40 511)**	**385 752**
Statement of Comprehensive Income – 30 June 2013					
Segment revenue	124 756	214 108	17 473	-	356 337
Expenditure	–	–	–	(29 878)	(29 878)
Segment profit/(loss)	124 756	214 108	17 473	(29 878)	326 459
Statement of Financial Position – 30 June 2014					
Non-current assets					
Investment properties	**969 000**	**3 235 000**	**312 000**	**–**	**4 516 000**
Current assets					
Non-current assets held for sale	**–**	**311 900**	**–**	**–**	**311 900**
Trade receivables	**–**	**4 220**	**76**	**53 791**	**58 087**
Segment assets	**969 000**	**3 551 120**	**312 076**	**53 791**	**4 885 987**
Statement of Financial Position – 30 June 2013					
Non-current assets					
Investment properties	927 000	3 064 000	260 000	–	4 251 000
Current assets					
Non current assets held for sale	79 000	239 900	–	–	318 900
Trade and other receivables	7 743	1 660	223	32 634	42 260
Segment assets	1 013 743	3 305 560	260 223	32 634	4 612 160

33. OPERATING SEGMENTS *(continued)*

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

Revenues	2014 R'000	2013 R'000
Total revenue for reportable segments		
Other revenue	**426 276**	356 337
Straight-line of leases	**(3 102)**	(295)
Consolidated revenue	**423 174**	356 042
Profit or loss		
Total profit or loss for reportable segments	**385 752**	326 459
Other profit or loss		
Unallocated amounts:	**–**	–
Net finance costs	**(146 041)**	(132 320)
Debenture interest	**(240 014)**	(200 184)
Recoupment of debenture interest	**531**	6 130
Transaction costs on business combinations	**–**	(1 975)
Gain on bargain purchase	**–**	7 615
Profit on properties held for trading	**–**	948
Fair value adjustments	**113 173**	199 061
Profit before taxation	**113 401**	205 734
Assets		
Total assets for reportable segments	**4 885 987**	4 612 160
Other unallocated amounts	**228 131**	160 765
Consolidated total assets	**5 114 118**	4 772 925
Liabilities		
Total liabilities for reportable segments	**–**	–
Other unallocated amounts	**4 312 271**	4 082 173
Consolidated total liabilities	**4 312 271**	4 082 173

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 represents approximately R87,7 million (2013: R89,6 million) of the group's total revenues.

	Gross rental income	*Number of rooms
34. PROPERTY PORTFOLIO INFORMATION		
34.1 By lease type		
Fixed leases	28%	16%
F&V leases	66%	73%
Variable leases	6%	11%
	100%	100%
34.2 Geographic profile		
Gauteng	49%	47%
KwaZulu-Natal	13%	17%
Western Cape	33%	27%
Eastern Cape	3%	5%
Mpumalanga	2%	4%
	100%	100%
34.3 Vacancy		
The company had no vacant space at year end.		
34.4 Tenant profile		
Hotels with management companies that have national representation	73%	86%
Tenant managed hotels	27%	14%
	100%	100%
34.5 Lease expiry profile		
One year	10%	6%
Two to five years	31%	38%
After five years	59%	56%
	100%	100%

**Indicates number of rooms at 30 June 2014 and does not account for pro rata ownership where HPF owns less than 100% of a specific hotel.*

Shareholders analysis

Analysis of A-Linked Unitholders as at 30 June 2014

Linked unitholder spread	Number of linked unitholdings	% of total linked unitholdings	Number of linked units	% of issued capital
1 – 1 000 units	122	17.63%	50 441	0.04%
1 001 – 10 000 units	207	29.91%	821 598	0.59%
10 001 – 100 000 units	202	29.19%	7 651 483	5.54%
100 001 – 1 000 000 units	128	18.50%	40 257 888	29.14%
1 000 001 units and over	33	4.77%	89 368 307	64.69%
Total	**692**	**100.00%**	**138 149 717**	**100.00%**
Distribution of linked unitholders				
Collective investment schemes	133	19.22%	83 072 622	60.13%
Retirement benefit funds	135	19.51%	21 233 603	15.37%
Assurance companies	18	2.60%	8 998 282	6.51%
Public entities	3	0.43%	2 821 586	2.04%
Hedge funds	10	1.44%	2 202 167	1.59%
Foundations and charitable funds	13	1.88%	1 966 932	1.42%
Medical aid funds	13	1.88%	2 693 473	1.95%
Organs of State	3	0.43%	9 215 501	6.67%
Trusts	59	8.53%	1 444 369	1.05%
Retail linked unitholders	249	35.98%	1 258 791	0.91%
Insurance companies	4	0.58%	555 806	0.40%
Scrip lending	4	0.58%	353 650	0.26%
Private companies	19	2.75%	385 854	0.28%
Managed funds	6	0.87%	1 228 015	0.89%
Close corporations	9	1.30%	263 391	0.19%
Stockbrokers and nominees	8	1.16%	162 187	0.12%
Custodians	4	0.58%	283 801	0.21%
Public companies	1	0.14%	7 506	0.01%
Investment partnerships	1	0.14%	2 181	0.00%
Total	**692**	**100.00%**	**138 149 717**	**100.00%**
Linked unitholder type				
Non-public unitholders	3	0.43%	284 944	0.21%
Directors and Associates	3		284 944	0.21%
Public unitholders	689	99.57%	137 864 773	99.79%
Total	**692**	**100.00%**	**138 149 717**	**100.00%**
Fund managers with a holding greater than 3% of the issued linked units				
Coronation Fund Managers			70 466 710	51.01%
Sanlam Investment Management			13 056 684	9.45%
Public Investment Corporation			8 852 731	6.41%
Prudential Portfolio Management			7 454 713	5.40%
Stanlib Asset Management			6 657 447	4.82%
Total			**106 488 285**	**77.09%**
Beneficial linked unitholders with a holding greater than 3% of the issued linked units				
Coronation Fund Managers			39 352 767	28.49%
Sanlam Group			13 793 522	9.98%
Investment Solutions			7 923 415	5.74%
Government Employees Pension Fund			7 649 847	5.54%
Stanlib			5 911 853	4.28%
Prudential			4 647 449	3.36%
Nedbank Group			4 298 491	3.11%
Transnet Retirement Funds			4 263 453	3.09%
Total			**87 840 797**	**63.59%**
Total number of linked unitholders	**692**			
Total number of linked units in issue	**138 149 717**			

Linked unitholder spread	Number of linked unitholdings	% of total linked unitholdings	Number of linked units	% of issued capital
1 – 1 000 units	86	9.90%	40 860	0.03%
1 001 – 10 000 units	290	33.37%	1 591 877	1.15%
10 001 – 100 000 units	335	38.55%	10 901 297	7.89%
100 001 – 1 000 000 units	123	14.15%	42 704 588	30.91%
1 000 001 units and over	35	4.03%	82 911 095	60.02%
Total	**869**	**100.00%**	**138 149 717**	**100.00%**
Distribution of linked unitholders				
	70	8.06%	64 116 153	46.41%
Retirement benefit funds	112	12.89%	28 840 063	20.87%
Organs of State	3	0.35%	10 414 136	7.54%
Stockbrokers and nominees	16	1.84%	8 573 890	6.21%
Retail linked unitholders	453	52.13%	7 377 480	5.34%
Trusts	108	12.43%	4 156 123	3.01%
Private companies	31	3.57%	3 763 989	2.72%
Employee linked unit schemes	1	0.11%	1 969 710	1.42%
Hedge funds	8	0.92%	1 899 066	1.37%
Custodians	5	0.58%	1 721 716	1.25%
Public entities	1	0.11%	1 261 583	0.91%
Close corporations	14	1.61%	1 006 043	0.73%
Foundations and charitable funds	8	0.92%	965 430	0.70%
Managed funds	10	1.15%	519 169	0.38%
Medical aid funds	3	0.35%	512 651	0.37%
Assurance companies	6	0.69%	450 939	0.33%
Investment partnerships	13	1.50%	370 486	0.27%
Scrip lending	4	0.46%	206 655	0.15%
Insurance companies	2	0.22%	14 700	0.01%
Public companies	1	0.11%	9 735	0.01%
Total	**869**	**100.00%**	**138 149 717**	**100,00%**
Linked unitholder type				
Non-public unitholders	4	0.46%	2 830 376	2.04%
Employee Linked Unit Schemes	1		1 969 710	1.42%
Directors and Associates	3		860 666	0.62%
Public unitholders	865	99.54%	135 319 341	97.96%
Total	**869**	**100.00%**	**138 149 717**	**100.00%**
Fund managers with a holding greater than 3% of the issued linked units				
Investec Asset Management			33 212 053	24.04%
Prudential Portfolio Management			19 526 560	14.13%
Regarding Capital Management			13 691 680	9.91%
Public Investment Corporation			9 507 854	6.88%
Clucas Gray Investment Management			5 014 744	3.63%
Personal Trust International			4 669 042	3.38%
Total			**85 621 933**	**61.97%**
Beneficial linked unitholders with a holding greater than 3% of the issued linked units				
Prudential			10 274 700	7.44%
Investec			9 861 241	7.14%
Government Employees Pension Fund			8 801 257	6.37%
Nedbank Group			6 728 889	4.87%
ACSIS			5 640 015	4.08%
Personal Trust			4 648 442	3.36%
Transnet Retirement Funds			4 535 289	3.28%
Investment Solutions			4 407 189	3.19%
Total			**54 897 022**	**39.73%**
Total number of linked unitholders	**869**			
Total number of linked units in issue	**138 149 717**			

Three-year distribution forecast for Hospitality Property Fund Limited

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 for B-linked units: HPB ISIN for B-linked units: ZAE000076808
Income tax reference number: 9770/799/1/47
("Hospitality" or "the Fund" or "the company")

Set out below is the distribution forecast ("forecast") for the financial years 30 June 2015, 2016 and 2017 ("the forecast period"). The Board emphasises that this forecast assumes a stable global and local economic environment with the South African hotel industry continuing to reflect growth in trading volumes and room rates. The detailed assumptions utilised in preparation of this forecast is included below and care should be taken that these assumptions could change.

The forecast has been reviewed by KPMG Inc whose independent limited assurance opinion is available for inspection at the company's registered office.

Distribution forecast for the years ending 30 June

	Group					
	Forecast F2015 R'000	*change F2015/14*	Forecast F2016 R'000	*change F2016/15*	Forecast F2017 R'000	*change F2017/16*
Rental – contractual	463 508	*8.7%*	498 537	*7.6%*	540 530	*8.4%*
Operating expenses	(40 532)	*0.0%*	(42 969)	*6.0%*	(45 547)	*6.0%*
Operating profit	422 976	*9.6%*	455 568	*7.7%*	494 983	*8.7%*
Net finance cost	(161 127)	*10.1%*	(176 373)	*9.5%*	(192 865)	*9.4%*
Distribution	261 849	*8.8%*	279 195	*6.6%*	302 118	*8.2%*
A-linked unit	213 693	*9.8%*	224 378	*5.0%*	235 597	*5.0%*
B-linked unit	48 156	*4.6%*	54 817	*13.8%*	66 521	*21.4%*
Number of units						
A-linked units	143 970 038	*4.2%*	143 970 038	*0.0%*	143 970 038	*0.0%*
B-linked units	143 970 038	*4.2%*	143 970 038	*0.0%*	143 970 038	*0.0%*
Distribution per linked unit (cents)						
A-linked unit	**148.43**	***5.0%***	**155.85**	***5.0%***	**163.65**	***5.0%***
– Interim	73.33	*5.0%*	77.00	*5.0%*	80.85	*5.0%*
– Final	75.10	*5.0%*	78.85	*5.0%*	82.80	*5.0%*
B-linked unit	**33.45**	***0.0%***	**38.08**	***13.8%***	**46.20**	***21.4%***
– Interim	16.40	*(14.8%)*	19.59	*19.5%*	22.36	*14.1%*
– Final	17.05	*20.0%*	18.49	*8.4%*	23.84	*29.0%*
Combined-linked unit	**181.88**	***4.0%***	**193.93**	***6.6%***	**209.85**	***8.2%***
– Interim	89.73	*0.7%*	96.59	*7.6%*	103.21	*6.8%*
– Final	92.15	*7.5%*	97.34	*5.6%*	106.64	*9.6%*

CONSOLIDATED HOTEL STATEMENT OF COMPREHENSIVE INCOME FOR FIXED AND VARIABLE LEASES

for the year ending 30 June 2014

	Forecast 2015		Forecast 2016		Forecast 2017	
Revenue	R'000	% Contr	R'000	% Contr	R'000	% Contr
Rooms	950 981	61.9%	1 037 512	62.4%	1 122 371	62.6%
Food and Beverage	490 868	32.0%	526 371	31.6%	563 753	31.4%
Spa and Beauty Salon	24 295	1.6%	25 993	1.6%	27 783	1.5%
Golf and Safari	17 986	1.2%	19 270	1.1%	20 629	1.2%
Other	51 175	3.3%	54 776	3.3%	58 587	3.3%
Total revenue	**1 535 305**	**100.0%**	**1 663 922**	**100.0%**	**1 793 123**	**100.0%**
Departmental income (% of revenue)						
Rooms	738 725	77.7%	809 139	78.0%	878 013	78.2%
Food and Beverage	226 972	46.2%	242 914	46.1%	259 617	46.1%
Spa and Beauty Salon	6 885	28.3%	7 310	28.1%	7 762	27.9%
Golf and Safari	4 241	23.6%	4 530	23.5%	4 837	23.4%
Other	17 682	34.6%	15 626	28.5%	16 788	28.7%
Total operating income	**994 505**	**64.8%**	**1 079 519**	**64.9%**	**1 167 017**	**65.1%**
Other hotel expenses (% of revenue)						
Administration and General	159 285	10.4%	171 174	10.3%	183 627	10.2%
Sales and Marketing	109 658	7.1%	115 026	6.9%	123 895	6.9%
Heat, Light and Power	72 271	4.7%	79 809	4.8%	88 120	4.9%
Repairs and Maintenance	66 792	4.4%	71 771	4.3%	76 972	4.3%
Total other hotel expenses	**408 006**	**26.6%**	**437 780**	**26.3%**	**472 614**	**26.3%**
Management controllable profit	586 499	38.2%	641 739	38.6%	694 403	38.7%
Fixed expenses	76 378	5.0%	80 413	4.8%	84 776	4.7%
Management fees	85 052	5.5%	96 264	5.8%	103 951	5.8%
EBITDA (% of revenue)	**425 069**	**27.7%**	**465 062**	**28.0%**	**505 676**	**28.2%**
Fixed rental	195 131	45.9%	219 395	47.2%	237 001	46.9%
Variable rental	228 793	53.8%	245 108	52.7%	267 590	52.9%
Total F&V, variable income	**423 924**	**99.7%**	**464 503**	**99.9%**	**504 591**	**99.8%**
Fixed lease rental income	39 584		34 034		35 939	
Total rental income	**463 508**		**498 537**		**540 530**	

Three year distribution forecast (continued)

ANNEXURE 2

FIXED AND VARIABLE LEASE (F&V) PORTFOLIO

Core portfolio

1 Arabella Hotel & Spa
2 Courtyard Rosebank
3 Courtyard Sandton
4 Crowne Plaza JHB – The Rosebank
5 Holiday Inn Sandton
6 Inn on the Square
7 Mount Grace Country House & Spa
8 Protea Hotel Edward
9 Protea Hotel Marine
10 Protea Hotel Victoria Junction
11 Radisson Blu Waterfront
12 Radisson Blu Gautrain
13 Westin Cape Town

Secondary portfolio

14 Bayshore Inn
15 Courtyard Arcadia
16 Courtyard Eastgate
17 Protea Hotel Hazyview
18 Protea Hotel Hluhluwe & Safaris
19 Protea Hotel Imperial
20 Protea Hotel Richards Bay
21 Protea Hotel The Richards
22 Protea Hotel The Winkler

Conference portfolio

23 Birchwood Hotel & Conference Centre
24 Kopanong Hotel & Conference Centre

FIXED LEASE PORTFOLIO

25 Champagne Sports Resort
26 Premier King David

HOTEL ROOM STATISTICS (EXCLUDING FIXED LEASE AND CONFERENCE PORTFOLIO)

Fixed and variable leases	F2014	F2015	change 2015/14	F2016	change 2016/15	F2017	change 2017/16
Occupancy							
Core portfolio	65.4%	**68.1%**	*4.1%*	**68.8%**	*1.1%*	**70.0%**	*1.7%*
Secondary portfolio	49.4%	**55.2%**	*11.7%*	**56.7%**	*2.8%*	**58.3%**	*2.8%*
Total	61.4%	**64.8%**	*5.5%*	**66.0%**	*1.8%*	**67.2%**	*1.9%*
Average room rate							
Core portfolio	R1 274	**R1 353**	*6.2%*	**R1 456**	*7.6%*	**R1 552**	*6.6%*
Secondary portfolio	R 718	**R746**	*3.9%*	**R794**	*6.5%*	**R840**	*5.8%*
Total	R1 162	**R1 248**	*7.4%*	**R1 322**	*5.9%*	**R1 406**	*6.4%*
RevPar							
Core portfolio	R833	**R921**	*10.6%*	**R1 002**	*8.8%*	**R1 086**	*8.4%*
Secondary portfolio	R355	**R411**	*16.0%*	**R450**	*9.5%*	**R490**	*8.7%*
Total	R713	**R809**	*13.3%*	**R872**	*7.8%*	**R946**	*8.5%*

ASSUMPTIONS APPLIED IN THE FORECAST

Detail	Assumptions
Basis and preparation	The FY2015 forecast comprises the budget of the Fund which was prepared after completing detailed reviews of the individual hotel's budgets together with the tenants/management companies and obtaining HPF Audit Committee and Board approval. Forecasts for two additional years (FY2016 and FY2017) were prepared utilising the FY2015 budget as the base and applying the assumptions below. All forecasts are prepared on a "per property" basis assessing the revenue and expenses at individual hotels. The fixed and variable rentals payable by the tenants to the Fund are then calculated. Fund expenses and finance costs are assessed for the respective periods resulting in the computation of distributions.
Investment property portfolio	The forecast is based on the property portfolio as at the end of August 2014 and no acquisitions or disposals have been assumed. All properties have been assumed to be fully operational during the period.
Properties held for trading	No provision has been made for any sale of the residential erven arising from the Arabella Phase 2 development.

Economic indicators

	FY2015	FY2016	FY2017
CPI forecast	5.9%	5.6%	5.4%
GDP forecast	2.1%	2.8%	2.9%
Average of Nedbank and RMB economic forecasts			

Interest rates

	Prime Interest rate forecast	3-month JIBAR forecast
July 2014	9.25%	6.18%
Nov 2014	9.50%	6.43%
Mar 2015	9.75%	6.68%
Nov 2015	10.00%	6.93%
Dec 2015	10.25%	7.18%
Mar 2016	10.75%	7.68%
Sep 2016	11.00%	7.93%

ASSUMPTIONS APPLIED IN THE FORECAST (continued)

Rental income

Fixed lease portfolio	The Birchwood fixed lease converted to a Fixed and Variable (F&V) lease from 1 July 2014 which resulted in a R14m reduction in net income. The previous fixed lease was concluded in 2006 with CPI + 2% escalations which resulted in the rental escalating to a level which was higher than market on expiry. The reversion in rental assumed on the F&V lease for FY2015 is R8m with a further R6m dilution budgeted for additional equity funding costs on the R60m investment in the Terminal Convention Centre. The current fixed lease at Champagne Sport Resort's ("Champagne") was concluded in February 2006 for a 10-year period at a net rental escalating at CPI + 1%. This lease expires in February 2016 and due to the higher than inflation rental increases, coupled with a downturn in the hotel industry from 2009, the tenant has been under pressure to maintain a profitable business after servicing rentals. Management have engaged with the tenant and explored alternative options to lease the property. After exploring the options, the parties agreed to a renewal of the lease for a further five-year period from 1 July 2015 at a reduction in rentals of 20% (R7m per annum). The Fund will also acquire the furniture, fittings and equipment ("FFE") from the tenant at book value of R14m and will invest R5m per annum during the lease period to upgrade the FFE. The Premier King David's lease expires in January 2015 and has been assumed to convert to a F&V lease with a CPI linked rental increase on expiry. From February 2015, Champagne will be the only fixed lease remaining. No further rental income reversions are expected following the restructure of the Champagne lease.
F&V and variable leases	Rental income from the leases linked to F&V and variable rental income is based on an analysis of the performance of the individual hotels.
Fund operating expenses	General head office expenditure was based on the FY2015 budget, growing by 6% annually. The FY2015 comparative to FY2014 is distorted due to the costs linked to the settlement of the Absa facility of R6.8m in 2014. Also, the budget accounted for 12-months additional employee costs compared to six months in FY2014 following the recruitment of additional specialist skills to enhance the Fund's capacity to effectively manage its growing portfolio and the increasing proportion of fixed and variable leases.
Bad debts	The forecast for FY2015 assumed a bad debt provision of R2.0m which has been escalated by 6% annually.
Finance costs	The existing debt facilities and swap contracts are noted below. All facilities are expected to be renewed at expiry at the same margin. The variable JIBAR rates utilised are noted under Economic Indicators. Existing facilities will be utilised to fund the R100m capex for FY2015. Additional corporate bonds are assumed to be issued at JIBAR + 210bps in FY2016 and FY2017 to fund the capex of R128m and R110m respectively.

Finance cost (continued)

DEBT FACILITY

	Facility	Interest rate	Repmt date
Nedbank			
Loan 1	176 300 000	3-month JIBAR plus 2.9%	July 2015
Loan 2	400 000 000	3-month JIBAR plus 2.8%	Oct 2019
Loan 3	30 250 000	3-month JIBAR plus 2.85%	Oct 2018
Loan 4	150 000 000	3-month JIBAR plus 2.38%	Feb 2018
Loan 5	150 000 000	3-month JIBAR plus 2.84%	June 2016
Loan 6	50 000 000	3-month JIBAR plus 2.38%	Feb 2018
Loan 7	67 000 000	3-month JIBAR plus 2.38%	July 2018
	1 023 550 000		
% of facility	54%		
Corporate bonds			
Secured – HPF 01	150 000 000	3-month JIBAR plus 1.82%	April 2016
Unsecured – HPF 02	40 000 000	3-month JIBAR plus 2.4%	April 2015
Unsecured – HPF 03	80 000 000	3-month JIBAR plus 2.7%	April 2016
Secured – HPF 04.1	300 000 000	3-month JIBAR plus 2.0%	Feb 2017
Secured – HPF 04.2	100 000 000	3-month JIBAR plus 2.0%	Feb 2017
Secured – HPF 05	200 000 000	Fixed at 9.89%	Feb 2017
	870 000 000		
% of facility	46%		
Total facility	**1 893 550 000**		

SWAPS/FIXED			Expiry
Nedbank swap 1	150 000 000	Collar swap – Floor 6.0%/ Ceiling 9.09%	Sep 2016
Nedbank swap 2	150 000 000	Vanilla swap – 6.4%	Oct 2016
Nedbank swap 3	100 000 000	Vanilla swap – 7.05%	Sep 2017
RMB swap 2	346 667 000	Vanilla swap – 7.96%	July 2016
RMB swap 3	250 000 000	Collar swap – Floor 6.65%/ Ceiling 9.20%	Feb 2016
RMB swap 4	100 000 000	Vanilla swap – 7.05%	Sept 2017
Secured – HPF 05	200 000 000	Fixed at 9.89%	Feb 2017
	1 296 667 000		
% Hedged of total debt	68%		

ASSUMPTIONS APPLIED IN THE FORECAST (continued)

Capital expenditure	Provision has been made for the following capital expenditure which comprises operating capex and elements of refurbishment in order to maintain the quality of the portfolio. The additional capex is forecast to be funded by the issue of additional corporate bonds. FY2015 R100m FY2016 R128m Includes acquisition of FFE and upgrades to Champagne FY2017 R110m
Hotel rooms revenue	The individual hotel operators prepared a detailed rooms revenue budget for FY2015, analysing the properties by market segment, and projecting the occupancy and average room rate (ARR) by month. The revenue budgets were prepared assuming the hotel trading environment remains stable with limited new supply being introduced during the forecast period.
Occupancy	The FY2015 occupancy budgets per property were used as the base and room nights sold increases have been linked to GDP. All hotel properties have a terminal occupancy. This occupancy is the theoretical maximum occupancy that each property is likely to trade at during extended periods of high demand and is based on historical maximum trading levels or STR area stats where historical levels were not available or relevant. The portfolio has been separated between a "Core portfolio" and "Secondary portfolio". As occupancy in the Core portfolio has grown significantly over the last few years to over 65%, the growth for FY2016 and FY2017 has been limited to 50% of GDP growth until terminal levels are reached. On reaching this level volumes are assumed to remain static for two years and then decline by 5% for one year indicating additional supply being introduced into the market in response to high demand. The Secondary portfolio occupancy is assumed to grow on the same terms except that volumes are linked to GDP growth and not 50% of GDP.
Average room rates	Core portfolio ARR's grow by CPI + 2% in FY2016 and CPI + 1% in FY2017. These higher than inflation increases have been forecast as volume growth has been assumed at lower than GDP as these hotels are operating at capacity and are able to drive rates more aggressively. The Secondary portfolio ARR is assumed to grow in line with CPI until terminal occupancy levels are achieved. On reaching this level volumes stabilise and ARR is forecast to grow by (CPI+GDP) indicating the higher rates that the market will be able to demand on the back of limited supply.
Food and Beverage and Conference Revenue	Forecast to grow in line with increase in room nights sold and inflation.
Hotel operating expenses	Electricity costs account for anticipated Eskom increases of 10% per annum. Rates and taxes are assumed to increase annually at CPI with no material municipal revaluations included in the forecast. Hotel payroll expenses are forecast to grow by CPI + 2% to allow for inflationary increases as well as higher occupancy.
Distributions/Dividend payments	Distributions paid every six months as detailed in debenture trust deed.

Shareholders' diary

Event	Date
Financial year-end	30 June
Annual general meeting	November 2014#
Announcement of interim results	20 February 2015*
Announcement of annual results	21 August 2015*
Integrated Annual Report posted to unitholders	30 September 2015*

Distribution timetable	Date
Distribution No. 17 for the year ended 30 June 2014	
Declaration date	20 August 2014
Last date to trade *cum* interest	5 September 2014
Linked units will trade *ex* interest	8 September 2014
Record date	12 September 2014
Payment date of interest distribution	15 September 2014
Distribution No. 18 for the six months ending 31 December 2014 *	
Declaration date	25 February 2015
Last date to trade *cum* interest	13 March 2015
Linked units will trade *ex* interest	16 March 2015
Record date	20 March 2015
Payment date of interest distribution	23 March 2015

** Expected dates.*

 # The Notice of the annual general meeting is not included in the Integrated Annual Report and will be distributed to shareholders separately.

Distribution policy

1. DISTRIBUTION FOR THE A DEBENTURES

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

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

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

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

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

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

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

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

In determining the interest distribution with reference to a prior period's distribution, the prior period's distribution shall be the determined or calculated distribution for the equivalent period in the prior year, whether or not such amount was paid having regard to the availability of funds.

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.]

Corporate *information*

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(PO Box 1144, Johannesburg, 2000)

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

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

DEBT AND EQUITY SPONSORS
Rand Merchant Bank, a division of FirstRand Bank Limited
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton
(PO Box 786273, Sandton, 2146)

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

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