Hospitality PROPERTY FUND

INTEGRATED REPORT

2013

Scope of this report

This integrated report covers the activities of Hospitality Property Fund Limited ('Hospitality' or 'the Fund' or the "Company") during the financial year ended 30 June 2013.

Having adopted integrated reporting in the 2011 financial year, Hospitality has focused on improving and continuously refining its reporting.

In its 2013 integrated report the Fund provides a transparent account of its activities during fiscal 2013 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.

THE WESTIN
Cape Town

The Fund's initial integrated report set out to describe its performance and policies, particularly as they relate to the main factors that determine sustainability – social, environmental, economic and financial. Hospitality has since evolved its approach to more fully disclose pertinent information to all its stakeholders in an integrated manner.

Accordingly, the report includes commentary on Hospitality's operational performance in the business environment, providing delivery towards its strategies for growth and outlining the measures taken to mitigate the risks facing the business. The report also includes a detailed overview of the Fund's approach to ensuring good corporate governance within a framework of appropriate policies, procedures and structures designed to achieve the principles enunciated in the King Report on Corporate Governance (King III).

Of equal importance is the impact of the Fund's activities on its stakeholders and, to this end, the report's '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. Taking cognisance of the impact of the Fund's operations on the environment, the 'environmental' commentary outlines the physical environment in which the hotels and resorts operate. 'Economic and financial' commentary provides a discussion of the Fund's portfolio which aims to deliver real positive returns for unitholders and bondholders.

Hospitality
PROPERTY FUND

CONTENTS

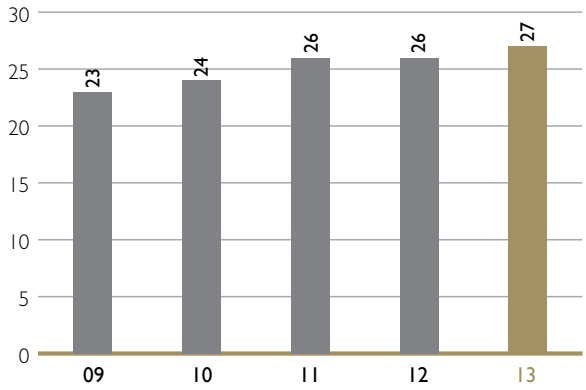
PERFORMANCE
HIGHLIGHTS

THE RADISSON BLU GAUTRAIN HOTEL
Sandton

Strategic objectives

- Acquisition of Radisson Blu Gautrain Hotel for R443 million in line with strategy to grow footprint in major metropolitan areas.
- Financing structure diversified with launch of Domestic Medium-Term Note Programme: R150 million secured notes and a private placement of R120 million unsecured notes.
- REIT status achieved: The only hotel REIT in South Africa.

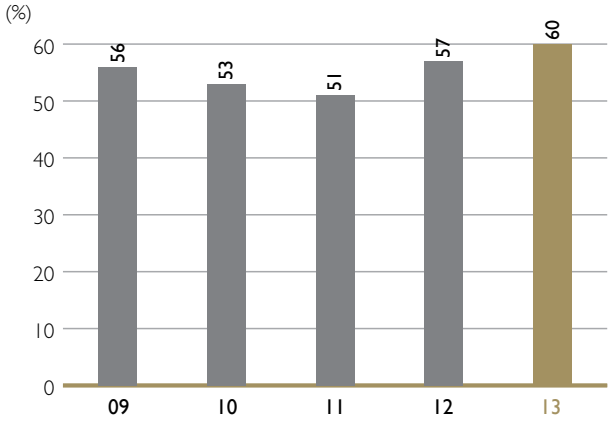
Number of properties



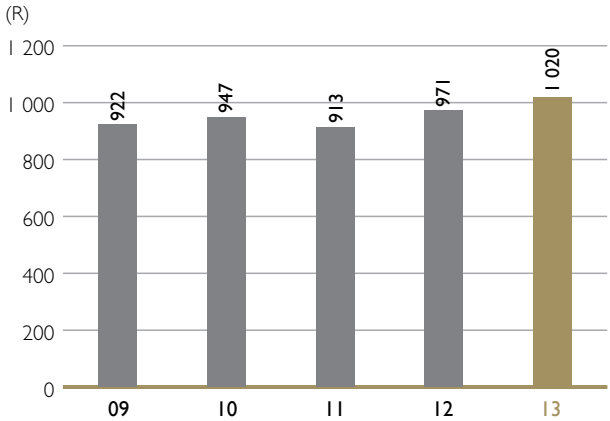
Operational

- The Fund's performance is tracking the recovery of the domestic hospitality sector.

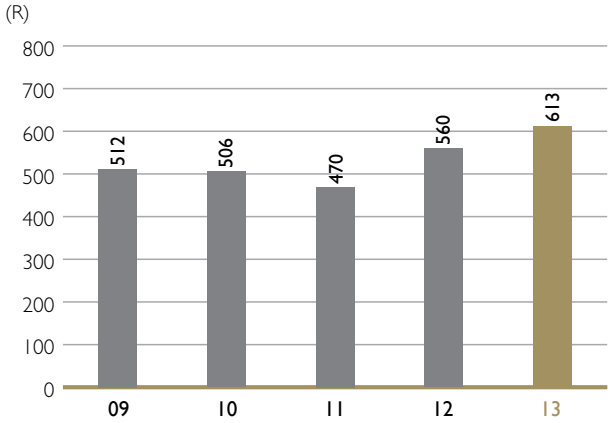
Occupancy*



ARR* (average room rate)



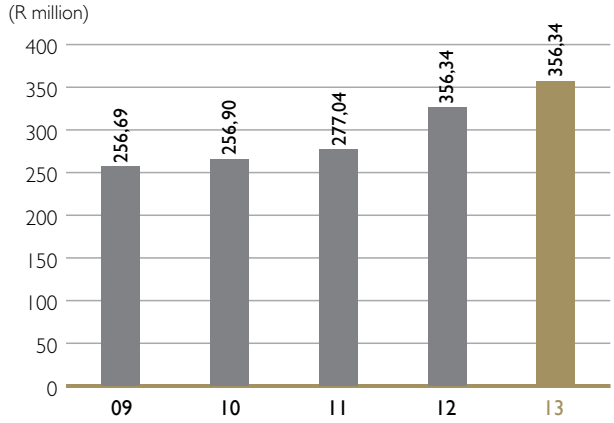
RevPAR* (revenue per available room)



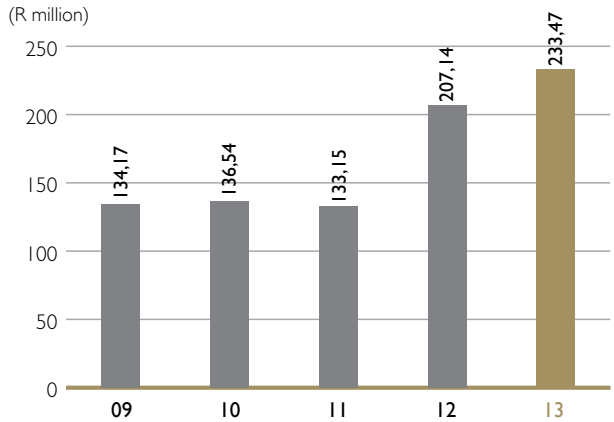
* *Statistics referenced to properties subject to variable rentals.*

Financial

Rental income



Earnings before interest, tax, depreciation and amortisation



Sustainability

- Board of directors strengthened with three new appointments.
- 130 trainees, interns and learners completed practical training during the year.
- Roll out of energy-saving initiatives across all properties completed.

FUND
AT A GLANCE

CROWNE PLAZA JOHANNESBURG – THE ROSEBANK
Rosebank

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.

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.

TOTAL HOTEL AND RESORT PROPERTIES
27

FUND PROPERTY VALUE
R4,6
BILLION

NET ASSET VALUE
R10,95
PER LINKED UNIT

The Fund consists of 27 hotel and resort properties valued at R4,56 billion, located throughout South Africa. It is highly diversified in terms of geographic location, star grading, brands and market mix.

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

BUSINESS TRAVEL
25%
OF CLIENTS

LEISURE TRAVEL
29%
OF CLIENTS

CONFERENCING
46%
OF CLIENTS

Hospitality is the largest multi-branded hotel owner in South Africa and has built strong partnerships with well-recognised local and international hotel brands. Through these long-term partnerships, the Fund leverages the value of its portfolio. The Fund's profits are distributed in full as debenture interest, free of tax and linked unitholders are consequently taxed according to their individual tax status. The Fund comprises a total of 137,2 million A-linked units and 137,2 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 2013 the net asset value was R10,95 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 pro-actively implement measures to reduce its environmental impact, focusing on power and water consumption as well as nature conservation.

REIT status

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

REITs are subject to the Companies Act, JSE Regulations and are governed by their own Memorandum of Incorporation. Revenue is derived from net income (after expenses), which the REIT achieves mainly from rental streams from the properties in which the company invests. 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 accordingly 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 shares is accounted for at unitholder level. This is expected to enhance the appeal of JSE-listed REITs to foreign investment while bringing greater stability to the real estate sector.

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.

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.

Hospitality, through its REIT structure, provides unitholders with rentals received from the hotel and leisure properties in which it invests. As the rentals are in part variable and linked to the operational performance of the underlying properties, these returns are highly correlated with the performance of the hotel industry generally, and more specifically, Hospitality's properties.

Specialised
HOTEL REIT
STATUS
achieved

No
CAPITAL
GAINS TAX
on sale of
properties

RADISSON BLU GAUTRAIN HOTEL
Sandton

Strategic objectives

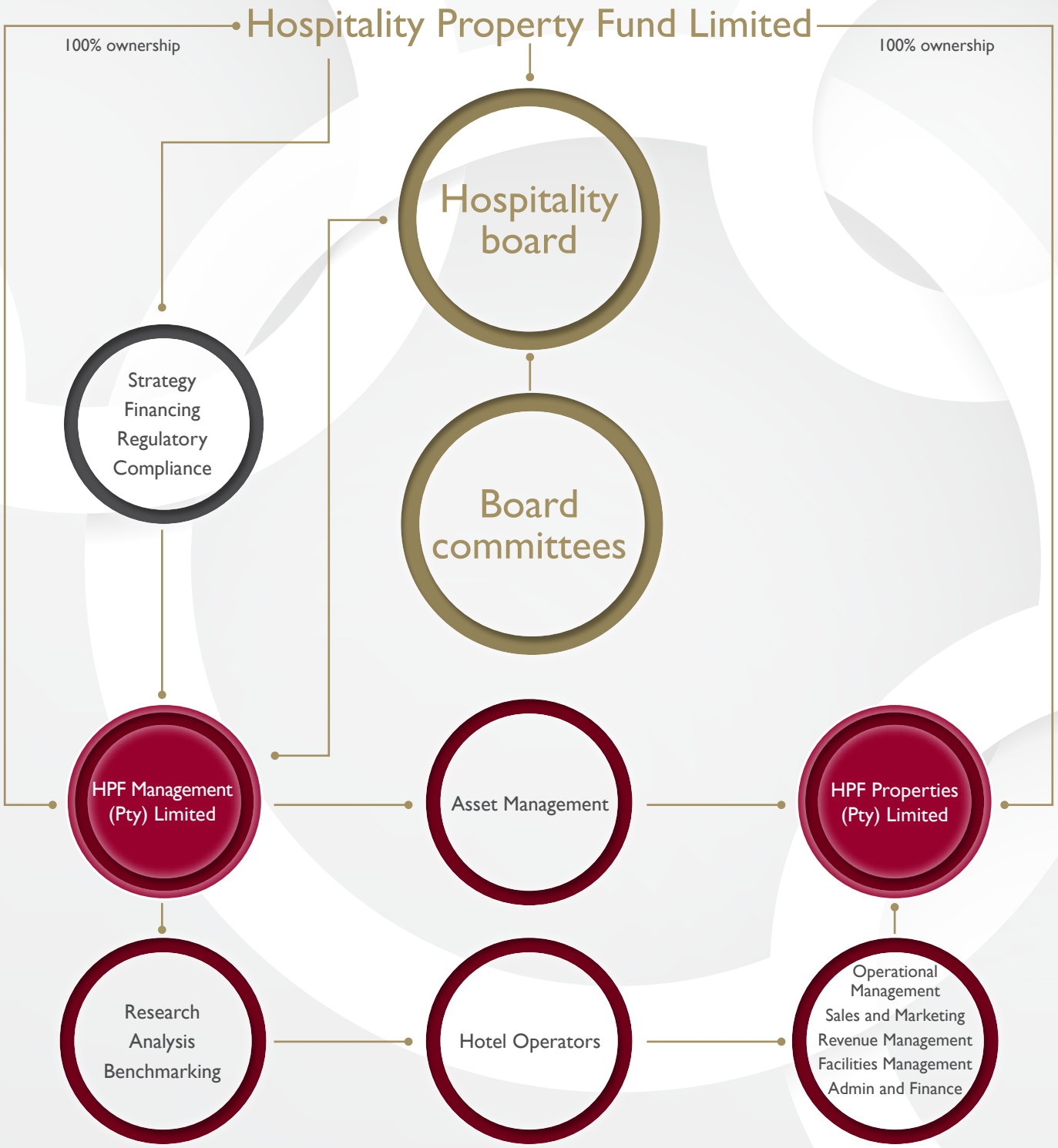
Fund strategy

Objective	Delivery during financial year 2013
Optimally grow linked unitholder returns while diversifying and managing risk	• Distributable earnings per combined linked unit grew by 26,2% to 152,71 cents in 2013 • Portfolio further diversified in terms of location, hotel brand, star grading and market segmentation
Maintaining high standards of corporate citizenship and sustainable development	Continuous improvement on compliance with King III and sustainability
Diversification of financing structure	Domestic Medium-Term Note Programme launched in April 2013
Obtain REIT status	As the only hotel REIT in South Africa, the investment proposition is unique

Portfolio strategy

Objective	Delivery during financial year 2013
Successfully created critical mass by bulking up Fund's assets since listing	Total value of portfolio increased from R1,0 billion at listing to current value of R4,6 billion while the number of properties has increased from 16 to 27
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	• Radisson Blu Gautrain Hotel in Sandton (2013) and Westin Cape Town (2011) acquired with a combined value exceeding R1 billion
• Disposals: Non-core properties that do not fit this profile	• Non-core properties with value of R319 million identified for disposal and at various stages of negotiation
• Refurbishments: Continually investing in existing properties to enhance value proposition of portfolio	• Refurbishment and development projects totalling R750 million completed since 2008

Business model

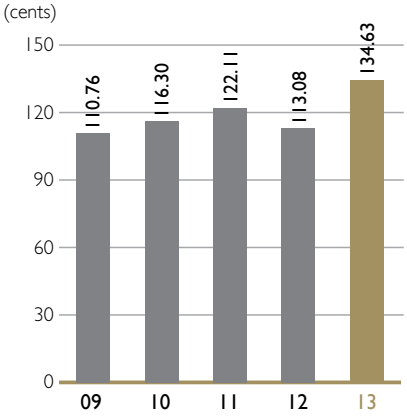


RADISSON BLU GAUTRAIN HOTEL
Sandton

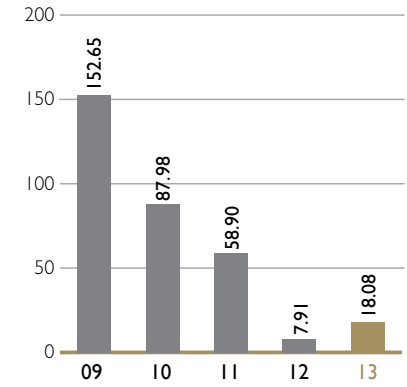
Five-year overview

	2009	2010	2011	2012	**2013**
Distribution per A-linked unit (cents)	110,76	116,30	122,11	113,08	**134,63**
Growth in distribution – A-linked unit (%)	*5,0*	*5,0*	*5,0*	*(7,4)*	***19,1***
Weighted average number of A-linked units (million)	61,59	62,47	80,46	90,04	**129,27**
Distribution per B-linked unit (cents)	152,65	87,98	58,90	7,91	**18,08**
Growth in distribution – B-linked unit (%)	*(8,1)*	*(42,4)*	*(33,1)*	*(86,6)*	***128,6***
Weighted average number of B-linked units (million)	61,59	62,47	80,46	90,04	**129,27**
Distribution per combined linked unit (cents)	263,41	204,28	181,01	120,99	**152,71**
Growth in distribution – Combined linked unit (%)	*(3,0)*	*(22,4)*	*(11,4)*	*(33,2)*	***26,2***
Weighted average number of combined units (million)	123,18	124,94	160,92	180,08	**258,54**
Property value (R million)	3 404	3 318	3 956	3 862	**4 570**
Interest-bearing liabilities (R' million)	1 014	1 308	1 740	1 360	**1 573**
Gearing to property value (%)	29,8	39,4	44,0	35,2	**34,4**
NAV per unit (excluding deferred tax) (cents)					
A – Linked	1 793	1 535	1 271	1 015	**1 095**
B – Linked	1 793	1 535	1 271	1 015	**1 095**
Closing market price (cents)					
A – Linked	1 101	1 290	1 441	1 325	**1 680**
B – Linked	1 389	1 090	750	340	**520**
(Discount)/premium to NAV (%)					
A – Linked	(38,6)	(16,0)	(13,4)	30,5	**53,4**
B – Linked	(22,5)	(29,0)	(41,0)	(66,5)	**(52,5)**
Growth/(decline) in unit price (%)					
A – Linked	3,4	17,2	11,7	(8,0)	**26,8**
B – Linked	(6,8)	(21,5)	(31,2)	(54,7)	**52,9**
Total return (%)					
A – Linked	13,8	27,7	21,2	(0,2)	**37,0**
B – Linked	3,5	(15,2)	(25,8)	(53,6)	**58,3**
Percentage of gross rental income (%)					
Fixed	50,4	44,3	44,0	37,0	**35,0**
F&V	44,0	50,2	50,0	59,0	**60,0**
Variable	5,6	5,5	6,0	4,0	**5,0**
Number of properties	23	24	26	26	**27**

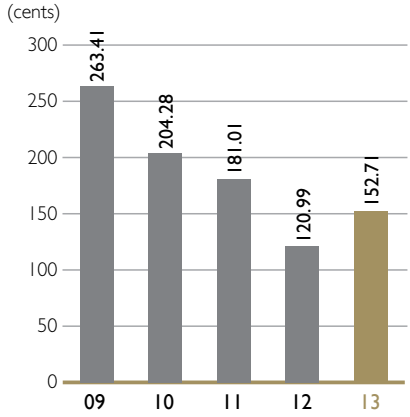
Distribution – A-linked unit



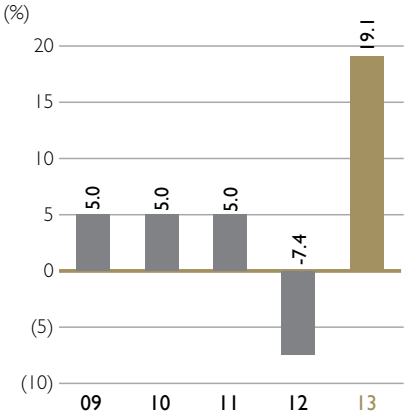
Distribution – B-linked unit(cents)



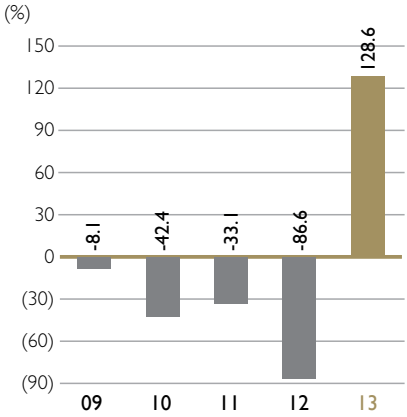
Distribution – combined linked unit



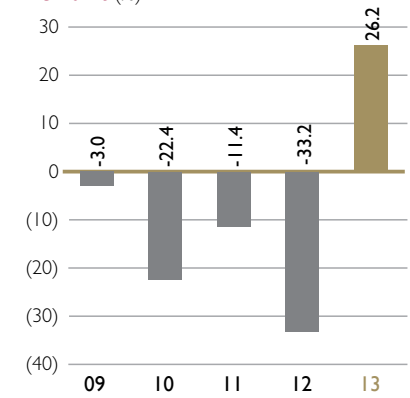
Growth in distribution – A-linked unit



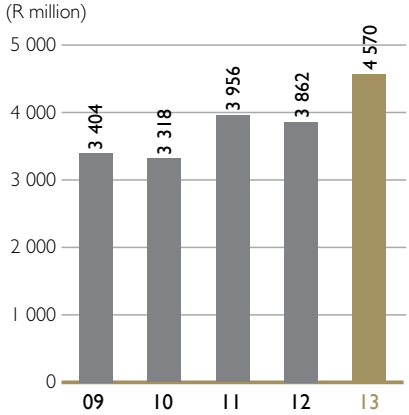
Growth in distribution – B-linked unit



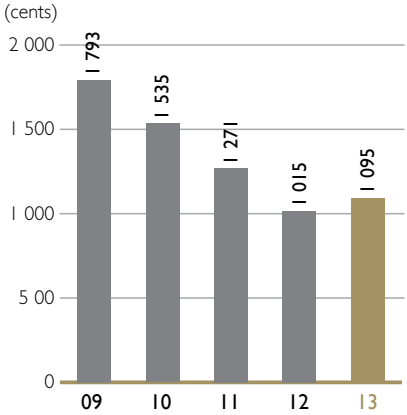
Growth in distribution – combined linked unit (%)



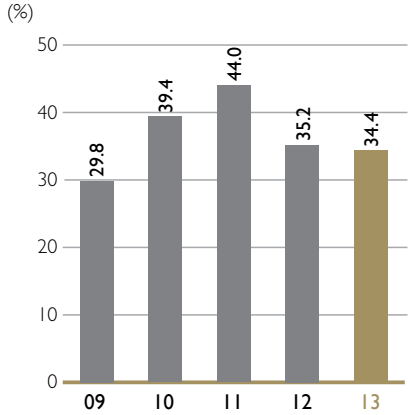
Property value



NAV per unit (excluding defered tax)



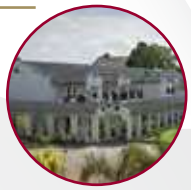
Gearing to property value



PORTFOLIO OVERVIEW

Group structure

Hospitality % ownership

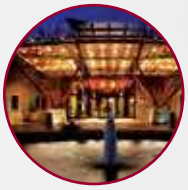

Birchwood Hotel and OR Tambo Conference Centre


Champagne Sports Resort


Kopanong Hotel and Conference Centre

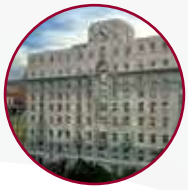
80%


Premier Hotel King David


Arabella Hotel and Spa


Crowne Plaza Johannesburg – The Rosebank

Holiday Inn Sandton – Rivonia Road


Inn on the Square


Mount Grace Country House and Spa


Protea Hotel Edward


Protea Hotel Hazyview

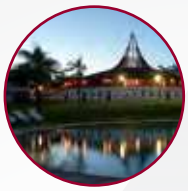

Protea Hotel Hluhluwe and Safaris

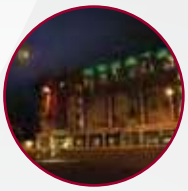

Protea Hotel Imperial


Protea Hotel Marine


Protea Hotel Richards Bay


Protea Hotel The Richards


Protea Hotel The Winkler


Protea Hotel Victoria Junction


Radisson Blu Gautrain Sandton


The Bayshore Inn

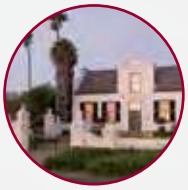

Westin Cape Town


Radisson Blu Waterfront

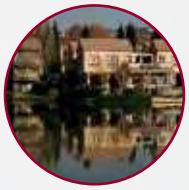
37%


Courtyard Arcadia

50%


Courtyard Cape Town

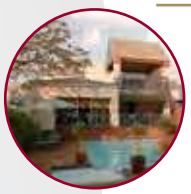
50%


Courtyard Eastgate

50%


Courtyard Rosebank

32%


Courtyard Sandton

26%

Property portfolio – 30 June 2013

	Property title	HPF ownership	Property location	Star grading	Number of rooms	Book value 30 June 2012 R'000	Capitalised cost for the year R'000
Fixed lease							
Birchwood Hotel and Conference Centre	Freehold	Direct	Boksburg	3	450	644 000	5 075
Champagne Sports Resort	Freehold	Combined share block and direct	Central Berg	4	112	286 000	559
Kopanong Hotel and Conference Centre	Freehold	Sectional Title (80% of units in scheme)	Benoni	3	252	80 000	600
Premier Hotel King David	Freehold	Direct	East London	3	80	32 000	1 862
Total fixed lease					894	**1 042 000**	**8 096**
Variable lease							
Radisson Blu Waterfront	Freehold	Sectional title (49% of rooms)	Cape Town	5	177	160 000	3 632
Courtyard Arcadia	Freehold	Shareblock (50% ownership)	Pretoria	4	69	32 000	6
Courtyard Cape Town	Leasehold	Shareblock (50% ownership)	Cape Town	4	70	955	–
Courtyard Eastgate	Freehold	Shareblock (50% ownership)	Bruma Lake	4	69	22 000	–
Courtyard Rosebank	Freehold	Shareblock (32% ownership)	Rosebank	4	83	21 000	–
Courtyard Sandton	Freehold	Shareblock (26% ownership)	Sandton	4	69	14 000	2 077
Total variable lease					537	**249 955**	**5 715**
F&V lease							
Arabella Hotel and Spa			Kleinmond	5	145	100 000	554
Crowne Plaza Johannesburg – The Rosebank	Freehold	Direct	Rosebank	4	318	337 000	1 579
Holiday Inn Sandton – Rivonia Road	Freehold	Direct	Sandton	4	301	342 000	(462)
Inn on the Square	Freehold	Direct	Cape Town	3	165	89 000	458
Mount Grace Country House and Spa	Freehold	Direct	Magaliesberg	5	121	235 000	791
Protea Hotel Edward	Freehold	Direct	Durban	4	101	101 000	550
Protea Hotel Hazyview	Freehold	Direct	Hazyview	3	87	40 000	57
Protea Hotel Hluhluwe and Safaris	Freehold	Direct	Hluhluwe	3	77	21 900	3 902
Protea Hotel Imperial	Freehold	Direct	Pietermaritzburg	3	70	24 000	72
Protea Hotel Marine	Freehold	Direct	Port Elizabeth	4	114	95 000	120
Protea Hotel Richards Bay	Freehold	Direct	Richards Bay	3	66	42 000	79
Protea Hotel – The Richards	Freehold	Direct	Richards Bay	4	135	67 000	2 331
Protea Hotel – The Winkler	Freehold	Direct	White River	3	87	35 000	137
Protea Hotel Victoria Junction	Freehold	Sectional Title (84% of units in scheme)	Cape Town	4	172	172 000	555
Radisson Blu Gautrain	Freehold	Sectional Title	Sandton	5	216	–	445 360
The Bayshore Inn	Freehold	Direct	Richards Bay	2	102	30 000	171
Westin Cape Town	Leasehold	Direct	Cape Town	5	483	839 000	13 901
Total F&V lease					2 760	**2 569 900**	**470 154**
Grand total					4 191	**3 861 855**	**483 965**

Revaluation surplus/ (deficit) R'000	Valuation 30 June 2013 R'000	Discount rate	Terminal cap rate	Date of acquisition	Acquisition cost R'000	Capitalised cost post-acquisition R'000	Total cost R'000	Surplus/ (deficit) on valuation to cost R'000	Change %
(23 075)	626 000	14,50%	10,50%	Feb-06	400 859	8 277	409 136	216 864	53,0
(19 559)	267 000	14,50%	10,50%	Feb-06	141 506	28 420	169 926	97 074	57,1
(1 600)	79 000	15,00%	11,00%	Feb-06	78 130	2 288	80 418	(1 418)	(1,8)
138	34 000	15,50%	12,50%	Feb-06	52 000	3 672	55 672	(21 672)	(38,9)
(44 096)	**1 006 000**				**672 495**	**42 657**	**715 152**	**290 848**	**40,7**
10 368	174 000	13,75%	9,00%	Feb-06	133 416	22 676	156 092	17 908	11,5
(6 006)	26 000	14,50%	10,50%	Feb-06	19 300	1 976	21 276	4 724	22,2
(955)	–	15,00%	–	Feb-06	7 125	–	7 125	(7 125)	(100,0)
(5 000)	17 000	15,00%	11,00%	Feb-06	9 400	–	9 400	7 600	80,9
4 000	25 000	14,50%	10,50%	Feb-06	12 180	–	12 180	12 820	105,3
1 923	18 000	14,50%	10,50%	Feb-06	8 662	2 077	10 739	7 261	67,6
4 330	**260 000**				**190 083**	**26 729**	**216 812**	**43 188**	**19,9**
10 446	111 000	14,50%	10,50%	May-11	83 368	6 617	89 985	21 015	23,4
27 421	366 000	14,25%	9,00%	Feb-06	70 000	327 840	397 840	(31 840)	(8,0)
62 462	404 000	14,50%	9,00%	Sep-08	409 247	15 704	424 951	(20 951)	(4,9)
16 542	106 000	15,00%	11,00%	Feb-06	63 361	45 882	109 243	(3 243)	(3,0)
8 209	244 000	14,50%	10,00%	Feb-06	131 562	159 042	290 604	(46 604)	(16,0)
13 450	115 000	15,00%	10,75%	Jun-10	110 400	19 426	129 826	(14 826)	(11,4)
(1 057)	39 000	14,00%	11,00%	Apr-07	41 508	13 358	54 866	(15 866)	(28,9)
(3 902)	21 900	15,00%	11,50%	Jul-07	28 219	9 302	37 521	(15 621)	(41,6)
4 928	29 000	15,00%	11,50%	Mar-07	24 456	20 849	45 305	(16 305)	(36,0)
10 880	106 000	15,00%	10,75%	Feb-06	73 000	42 759	115 759	(9 759)	(8,4)
(2 079)	40 000	15,00%	11,00%	Feb-06	23 000	11 090	34 090	5 910	17,3
12 669	82 000	15,00%	11,00%	Feb-07	63 137	20 086	83 223	(1 223)	(1,5)
5 863	41 000	15,00%	11,00%	Feb-06	10 000	36 979	46 979	(5 979)	(12,7)
37 445	210 000	14,50%	10,00%	Feb-07	122 839	46 365	169 204	40 796	24,1
9 640	455 000	13,75%	9,00%	Apr-13	443 500	–	443 500	11 500	2,6
(3 171)	27 000	15,00%	11,00%	Feb-07	12 333	26 036	38 369	(11 369)	(29,6)
54 099	907 000	13,50%	8,75%	May-11	648 895	16 250	665 145	241 855	36,4
263 846	**3 303 900**				2 358 825	817 584	3 176 409	127 491	4,0
224 080	**4 569 900**				**3 221 403**	**886 970**	**4 108 373**	**461 527**	**11,2**

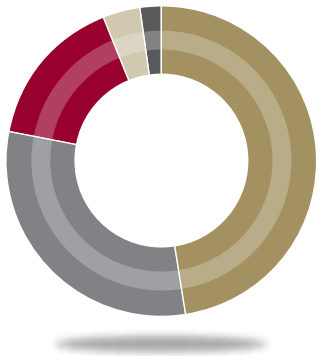
Geographic location

Hospitality is the largest multi-branded hotel owner in South Africa with a portfolio comprising some 4 191 rooms over 27 properties in the two- to five-star segments. It operates with a number of blue-chip local and international brands from major groups, which include:

Intercontinental Hotels Group, Starwood Hotels and Resorts, The Carlson Rezidor Hotel Group, Protea Hospitality Group, Three Cities Group and City Lodge Hotels.

Gross rental income by locality

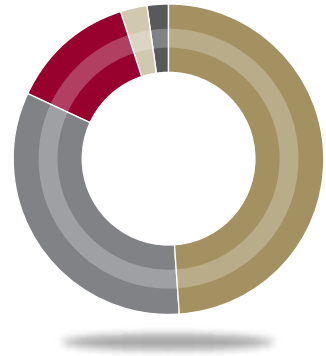
(%)



Gauteng	47
Western Cape	31
KwaZulu-Natal	16
Eastern Cape	4
Mpumalanga	2

Property value by locality

(%)



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

MOUNT GRACE COUNTRY HOUSE AND SPA
Magaliesberg

NUMBER OF PROPERTIES

27

NUMBER OF ROOMS

4 191

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

Management and administration

Birchwood Hotel Management Company

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

Champagne Sports Resort

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

City Lodge 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 five Courtyard properties with City Lodge. The Courtyards in Arcadia, Cape Town and Eastgate are jointly owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

Extrabold Hotel Management

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

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

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

Kopanong Hotel and Conference Centre

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

Premier Hotels and Resorts

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

Protea Hospitality Group

Protea Hotels, founded in 1984, is the largest hotel group in Africa with more than 125 fine hospitality establishments in ten 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'.

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

Management and administration *(continued)*

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.

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. The group's core brands are Radisson Blu in the upper upscale 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.

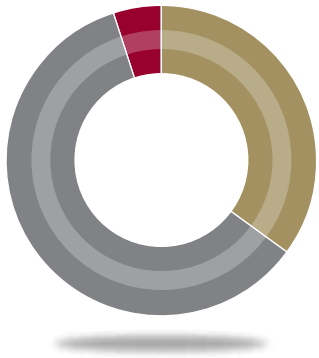
Three Cities Group

The Three Cities Group manages and markets over 30 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.

Sectoral spread

Gross rental income by lease type

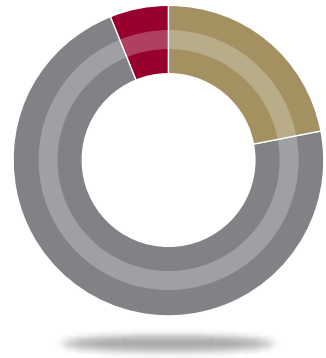
(%)



Fixed	35
F&V	60
Variable	5

Property value by lease type

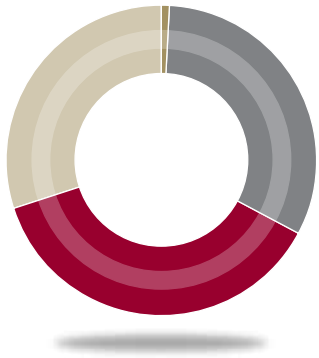
(%)



Fixed	22
F&V	72
Variable	6

Gross rental income by star grading

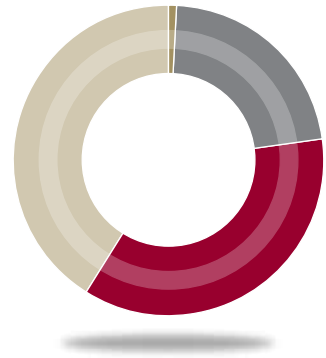
(%)



2-star	1
3-star	32
4-star	37
5-star	30

Property value by star grading

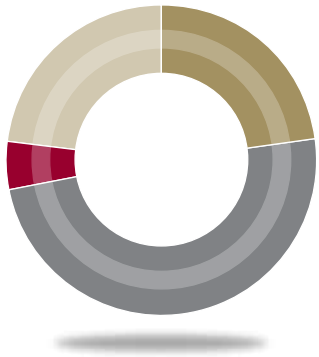
(%)



2-star	1
3-star	22
4-star	36
5-star	41

Gross rental income by lease expiry period

(%)



1-5 yrs	23
6-10 yrs	49
11-20 yrs	5
21-30 yrs	23

Property value by lease expiry period

(%)

1-5 yrs	21
6-10 yrs	41
11-20 yrs	15
21-30 yrs	23

Hotel trading statistics

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

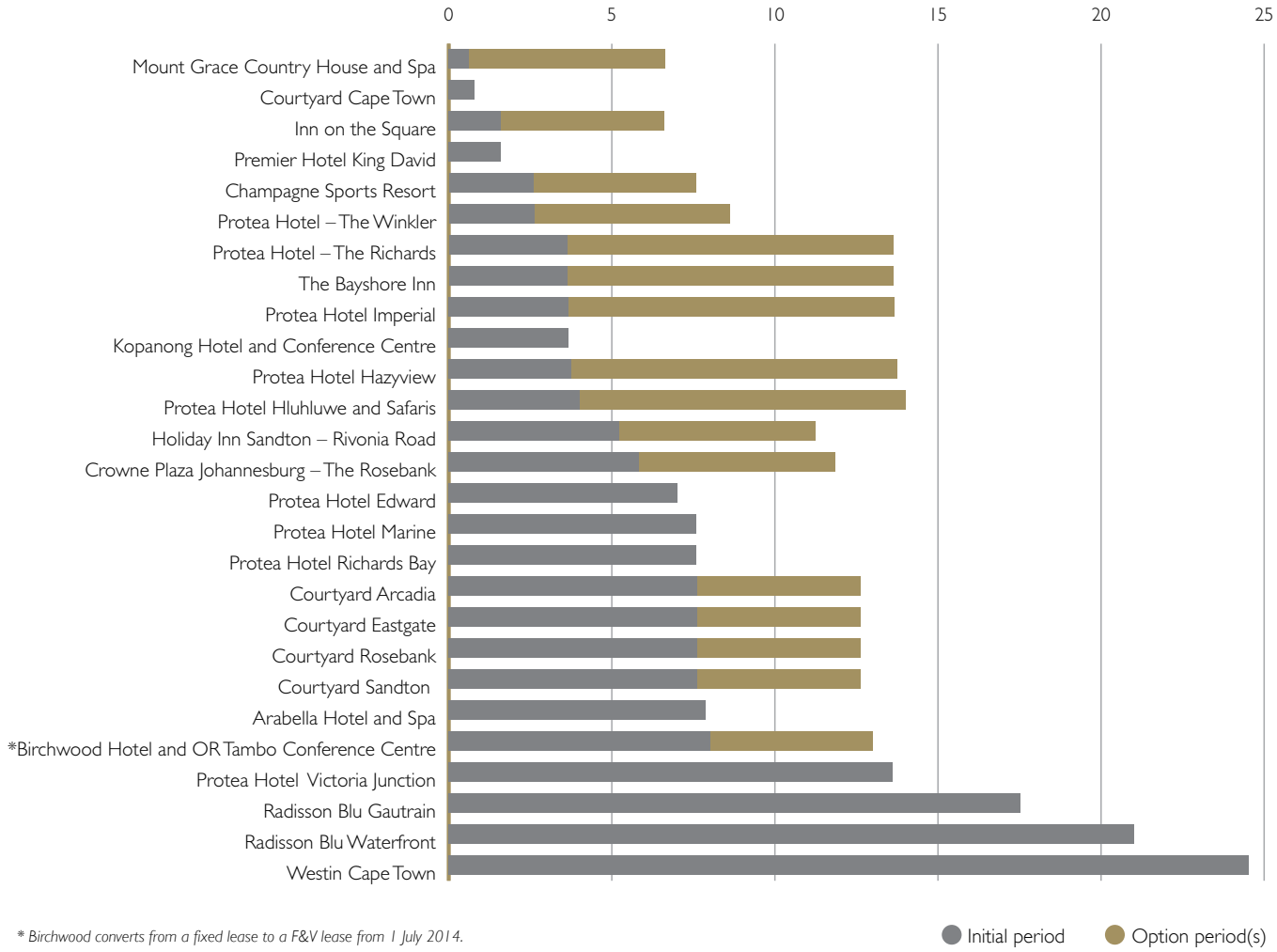
	FY 2009 R'000	%	FY 2010 R'000	%	FY 2011 R'000	%	FY 2012 R'000	%	**FY 2013 R'000**	**%**
Revenue	441 132	100	477 348	100	561 726	100	862 264	100	**948 497**	**100**
Rooms	286 179	65	312 922	66	342 055	61	541 909	63	**606 867**	**64**
Food and Beverage	112 188	25	126 575	27	152 796	27	248 488	29	**270 937**	**29**
Spa and Beauty Salon	5 242	1	8 206	2	9 482	2	17 899	2	**15 318**	**2**
Golf and Safari	2 973	1	2 364	0	3 063	1	14 559	2	**13 287**	**1**
Other	34 549	8	27 280	6	54 331	10	39 408	5	**42 088**	**4**
Departmental profit (% Departmental revenue)	286 957	65	302 564	63	348 422	62	530 269	61	**583 332**	**62**
Rooms	226 898	79	246 204	79	260 362	76	415 560	77	**466 279**	**77**
Food and Beverage	26 693	24	32 445	26	40 206	26	82 325	33	**90 325**	**33**
Spa and Beauty Salon	1 857	1	3 168	1	3 233	1	5 139	1	**5 049**	**1**
Golf and Safari	948	0	567	0	261	0	3 484	1	**3 205**	**1**
Other	30 562	11	20 180	7	44 361	13	23 761	4	**18 473**	**3**
Other hotel expenses	109 055	25	123 711	26	155 202	28	233 524	27	**253 155**	**27**
Administration and general	49 062	11	51 136	11	64 982	12	96 794	11	**108 112**	**11**
Sales and marketing	29 003	7	35 684	7	40 158	7	60 831	7	**65 097**	**7**
Heat, light and power	11 997	3	15 780	3	22 079	4	37 788	4	**40 452**	**4**
Repairs and maintenance	18 993	4	21 112	4	27 984	5	38 111	4	**39 495**	**4**
Management controllable profit	177 902	40	178 853	37	193 220	34	296 744	34	**330 177**	**35**
Fixed expenses	19 788	4	19 715	4	34 550	6	45 574	5	**47 211**	**5**
Management and incentive fees	23 942	5	22 597	5	25 522	5	44 030	5	**49 496**	**5**
EBITDA	134 172	30	136 541	29	133 147	24	207 140	24	**233 470**	**25**
Fixed rental	67 738	15	83 960	18	104 185	19	92 772	11	**99 677**	**11**
Variable rental	64 461	15	50 162	11	50 109	9	113 112	13	**131 904**	**14**
F&V/Variable lease income	132 199	30	134 121	28	154 294	27	205 884	24	**231 580**	**24**
Rental income reconciliation										
F&V/Variable lease income	132 199	52	134 121	50	154 294	56	205 884	63	**231 580**	**65**
Fixed lease rental income	124 487	48	131 781	50	122 749	44	120 797	37	**124 756**	**35**
Total rental income	256 686	100	265 902	100	277 043	100	326 681	100	**356 337**	**100**
Statistics										
Number of properties	23		24		26		26		**27**	

Occupancy, ARR and RevPAR analysis.

	Occupancy					ARR					RevPAR				
	2009	2010	2011	2012	**2013**	2009	2010	2011	2012	**2013**	2009	2010	2011	2012	**2013**
Variable lease	73%	60%	53%	50%	**56%**	R1 142	R1 261	R1 253	R1 275	**R1 319**	R839	R755	R665	R637	**R742**
F&V lease	50%	52%	51%	59%	**61%**	R817	R840	R816	R918	**R962**	R407	R433	R416	R543	**R586**
Fixed lease	58%	55%	45%	44%	**45%**	R690	R820	R726	R703	**R740**	R401	R449	R330	R313	**R330**
Total for variable leased properties	56%	53%	51%	57%	**60%**	R922	R947	R913	R974	**R1 020**	R512	R506	R470	R560	**R613**
Total all properties	56%	54%	50%	54%	**56%**	R854	R911	R860	R912	**R960**	R481	R490	R426	R492	**R536**
2 and 3-Star	55%	52%	47%	48%	**53%**	R635	R717	R652	R623	**R638**	R350	R374	R305	R300	**R336**
4-Star	56%	54%	50%	54%	**68%**	R830	R872	R832	R815	**R878**	R464	R474	R415	R444	**R599**
5-Star	64%	57%	59%	61%	**64%**	R1 819	R1 861	R1 561	R1 424	**R1 482**	R1 162	R1 060	R918	R872	**R948**

RADISSON BLU WATERFRONT
Cape Town

Lease expiry profile (years)



** Birchwood converts from a fixed lease to a F&V lease from 1 July 2014.*

Hotel awards and accolades

Hotel	Award	Description
Radisson Blu Hotel Gautrain	Best Business Hotel SA 2013	Business Traveller Awards
Radisson Blu Hotel Waterfront	Think Planet Recognition	Recognition of leading the way in Rezidor's energy survey initiative "Think Planet"
Mount Grace Country House and Spa	Best Conference Venue Diamond Diners Club Wine List Silver Spa Award Best Fine Dining Restaurant SA TripAdvisor Engage with Trade Professional Beauty Les Nouvelles Esthetiques World Luxury Hotel Awards SA Top 100 SA long wine list award 2012	West Rand Tourism 2012 Awards for 2010, 2011 and 2012 West Rand Tourism 2012 By Eat Out Certificate of excellence 2013 Best of 2012 conference venue Best resort/Hotel Spa award 2010 Spa Award and Gala Dinner 2012 2012 (Luxury romantic hotel) Best Luxury day spa
Courtyard Rosebank	National Winner – Suite Hotel Category	AA quality assured accommodation awards
Westin Cape Town	TripAdvisor	Certificate of Excellence 2013
Protea Hotel Marine	Best Hotel Eastern Cape 2013	Lilizela Awards
Arabella Hotel and Spa	Golf course currently ranked number 4 in South Africa	Golf Digest magazine

BOARD OF DIRECTORS

1 2 3 4 5 6

1. Don Bowden (54) Chairman

BCom (Economics), BAcc (Wits), CA(SA)

Don was appointed to the board in August 2012. He is a director of Tier 1 Investor Relations, Foord Unit Trusts 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, 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.

2. Andrew Rogers (44) Chief Executive Officer

N-Dip – 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 20 years' operational hospitality and tourism experience.

3. Ridwaan Asmal (41) Financial Director

BComm (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.

4. Kamil Abdul Karrim (54) 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.

5. Linda de Beer (44) Independent Non-Executive

CA(SA), Masters (Taxation)

Linda is an independent director and reporting and corporate governance advisor. She is also an Adjunct Professor at the University of the Witwatersrand. She also serves on the boards of Afgri Holdings Limited and Royal Bafokeng Platinum Limited. She is, *inter alia*, a member of the King Committee on Corporate Governance in South Africa, the Issuers' Services Advisory Committee of the JSE Limited and chairman of the Consultative Advisory Group of the International Auditing and Assurance Standards Board. 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.

6. Zuko Kubukeli (40) 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.

7 8 9 10 11

7. Gerald Nelson (58) 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 30 years' experience in activities related to property with specific expertise in development, asset management as well as listed and directly held investment property vehicles, with a specific focus on the hotel and leisure industry for the past six years. Gerald is a member of the investment, nomination and remuneration committees.

8. Willy Ross (68) 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 and he is a member of the audit and risk committee. 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-retirement Willy has accepted directorships on a number of listed and unlisted companies including Kagiso Media Limited, Vunani Limited and Capital Property Fund (Chairman).

9. Anitha Soni (54) 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 re-direction 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.

10. Syd Halliday (66) 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.

11. Zola Ntwasa (35) 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 sub-committee.

BUSINESS ENVIRONMENT

HOLIDAY INN SANDTON – RIVONIA ROAD
Sandton

Global economy

The global economic growth outlook remained fragile until mid-2013 due to the deep continuing recession in the Eurozone and a slowdown in a number of key emerging-market economies, especially China.

The Eurozone remains in recession with low overall business confidence. There are however signs of a recovery in Europe and improving outlook after six consecutive quarters of negative growth. Economic growth is expected to resume in the third quarter. In the United Kingdom, the largest tourism country to South Africa, there are also early indications of an economic recovery.

GDP growth in China, the world's second largest economy, slowed in the second quarter of 2013, to its lowest level in three years. However, the prognosis for the economy is positive with indications that the economy is evolving away from its dependence on exports towards domestic consumption, making it less sensitive to external shocks.

In the US, positive sentiment has been driven by various iterations of quantitative easing (QE) from the Federal Reserve to buoy domestic demand in recent years. More recently though, concerns have grown over the end of quantitative easing and the eventual tightening of US monetary policy. Economic growth is expected to be in line with 2012 as slow credit and possibly tighter conditions are anticipated should monetary policy stimulus unwind.

Domestic economy

The domestic economic growth rate continues to trend downwards. South Africa's GDP grew a meagre 0,9% in the first quarter of 2013 due to a weak manufacturing sector and low productivity affecting business confidence. As a result, the GDP growth in 2013 is likely to be slower than previously anticipated.

Accordingly, the Reserve Bank reduced its expectations in July 2013 and now anticipates that GDP will be less than 2,0% in 2013 from 2,4% two months previously. Downside risks to growth include upward

pressure on wages and the possibility of prolonged electricity outages, which could disrupt production across all industry sectors.

CPI trended up until March 2013, reaching a peak of 5,9%, which is at the upper band of the South African Reserve Bank's (SARB) target range. By June 2013 however it had slowed to 5,5%, providing support against monetary tightening. According to the Bureau for Economic Research, the consensus forecast for CPI in 2013 is 6,6% while the SARB anticipates CPI of 5,9% for the year. The higher expectations are led by evidence of imported inflation, including higher fuel prices as well as increasing administered prices such as electricity and municipal rates. Wage pressures, as organised labour demands wage increases exceeding the rate of inflation, could exacerbate the higher inflation outlook.

The SARB's Monetary Policy Committee (MPC) has kept its key repurchase rate at 5,0% since July 2012 when it dropped by 0,5%. The prime interest rate remains unchanged at 8,5%. This is amid concerns about slow economic growth and expectations of high inflation. The MPC is widely expected to keep rates on hold at least until the third quarter of 2014, as interest rates cannot, in isolation, accelerate growth and the employment rate continues to stagnate.

While average wages are increasing ahead of inflation, the benefit has been eroded as the real purchasing power of these incomes is impacted by the higher cost of living. Despite historically low interest rates, consumer spending is under pressure due to tight credit extension terms.

Hospitality sector

The recovery in the hospitality industry has been supported by strong growth in foreign tourist arrivals to South Africa. According to Statistics SA foreign tourist arrivals grew by 10,2% year-on-year in 2012. This is more than double the average global tourist growth of some 4% and was driven by increased volumes of traffic to South Africa for events, meetings, exhibitions and conferences. The growth in overseas tourists (excluding the African continent) was 15,1%, one of the highest growth rates around the globe and demonstrating that

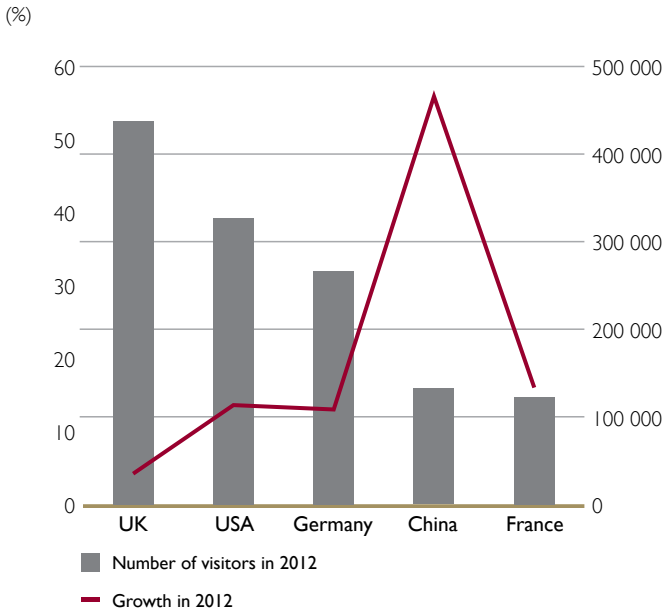
Analyst Team Kim Irmler and Ayesha Sayed

awareness of South Africa as a tourism destination is growing. Visitors from Europe continue to represent more than half of overseas visitors to South Africa, showing growth of 9,5%. The biggest overseas tourism market remains the United Kingdom, which was up 4,2%, albeit off a relatively high base. Visitors from the United States increased by 13,6% followed by Germany up 13,0%. China was ranked as South Africa's fourth largest overseas tourism market, growing 55,9% while France, in fifth position grew 16,0%.

The positive trend in visitors from BRICS countries has continued. Particularly strong growth was recorded in 2012 from Asia (up 33,7% on the figures recorded in 2011), driven by growth from China and India, and Central and South America (up 37,0%), thanks to continued good tourist growth out of Brazil. The most notable was the growth in Chinese visitors – China, which was ranked as the eighth biggest source market in 2011, rose to fourth position in 2012. Access to South Africa from China has improved with the introduction of a direct flight from Beijing to Johannesburg. Meanwhile arrivals from India (ranked eighth) and Brazil (ranked ninth) were up 18,2% and 44,7%, respectively. The BRICS Summit that was held in Durban in March 2013 provided a platform to continue marketing South Africa as a tourism destination. Domestic travel fell 8,5% in 2012, which is largely attributed to a slower-growing economy, but 2012 volumes remained higher than the 2006-2009 period, supported by a strong domestic corporate and leisure market.

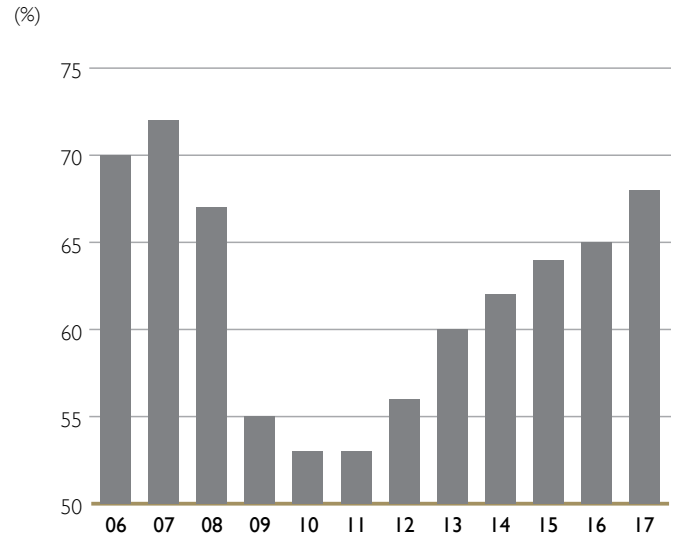
According to the Smith Travel Research (STR) global hotel benchmark report, overall occupancies in South Africa for all hotels for the 12 months ended 30 June 2013 increased by 4,98% to 61,25% compared to the previous year. The average room rate (ARR) increased by 6,8% to R930 over the same time horizon, resulting in RevPAR

The top five tourism source markets to South Africa



Source: Statistics South Africa

Hotel occupancy rates in South Africa



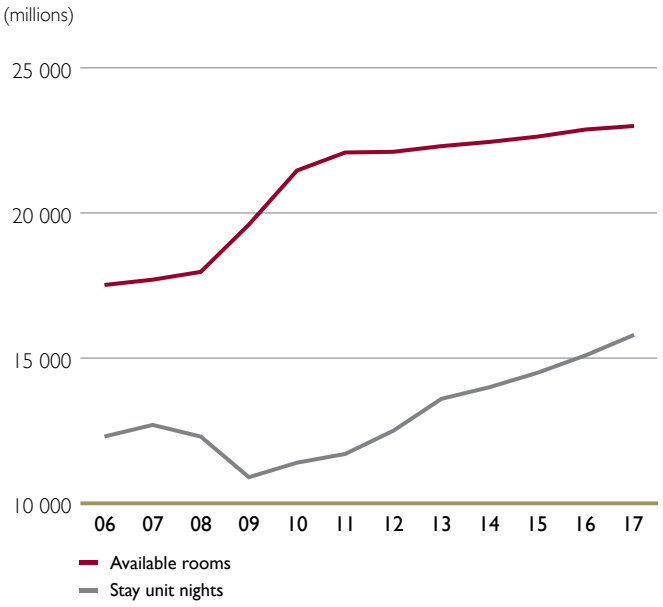
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

PROTEA VICTORIA JUNCTION
Cape Town

growth of 12,0%. The 5-star segment continues to lead the industry, with a 16,2% increase in RevPAR followed by the 3-star segment at RevPAR growth of 13,2% and the 4-star segment at 11,3%.

The supply and demand fundamentals in the hospitality industry are positive. According to the 3rd edition of PwC's South African hospitality outlook: 2013-2017, the number of available rooms dipped 0,2% in 2012 as new construction has dropped in prior years. However, new hotels are expected to start opening and others are being upgraded, so that the number of rooms could increase by 1,2% in 2013 and then grow at rates averaging just below 1% annually through to 2017.

Stay units vs available rooms



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The increase in foreign visitors has been led by an upswing in business travellers to South Africa for events, meetings, exhibitions and conferences. South Africa has become a popular destination for international conferences and there are more than 200 major conferences scheduled in the country over the next five years.

Growth in foreign visitors to South Africa from Southern African Development Community (SADC) countries accounts for 70% of total foreign visitors to the country (6,4 million). This category of visitors grew 8,3% in 2012 while visitors from East and Central Africa increased 7,9% to 81 271. GDP growth in sub-Saharan Africa measured in at 5,1% in 2012, underpinned by strong investment and favourable commodity prices. However, in the event of a renewed global downturn, lower demand for commodities could be to the detriment of the region. South Africa has benefited from sub-Saharan Africa's success which, collectively, is its second largest trading partner, with a similar export share to China.

Listed property sector overview

The combined market capitalisation of the South African-listed property sector was R234 billion, among the 27 listed counters in the sector at the end of June 2013, including three new listings on the JSE Limited during the year.

The sector peaked at record levels in May 2013, following an excellent three-year performance. However, later during that month it declined 16% in reaction to comments from the US Federal Reserve that is was preparing to start phasing out its fiscal stimulus programmes. Around the world, bond markets reacted with rising yields and the listed

property sector followed suit with a downward correction. In South Africa, the sell off in the listed property sector was less marked than in the bond market, partly owing to greater local ownership of property counters versus the high proportion of foreign ownership of domestic government bonds.

Asset class	12 months to June 2013
SA Listed Property Index[1]	24,0%
Equities[2]	21,0%
Bonds[3]	6,3%
Cash[4]	5,3%

† Source: Catalyst Fund Managers

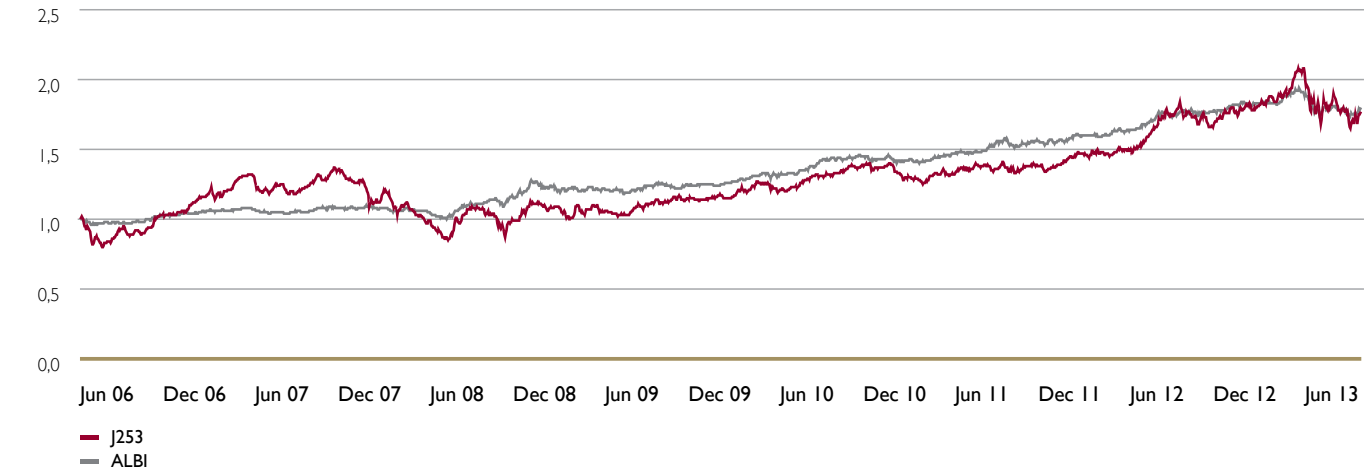
1. SA Listed Property Index
2. All Share Index
3. All Bond Index
4. STEFI

At year-end, the listed property sector was trading at a historic yield of 6,44% compared to the yield to maturity (YTM) on the Long-Term Government Bond Index which weakened in June to 7,69%. From the end of April 2013 to June 2013, the YTM on the Long-Term Government Bond Index weakened by 1,37%, whereas the historic rolled yield of the South African-listed property sector only weakened by 0,58%.

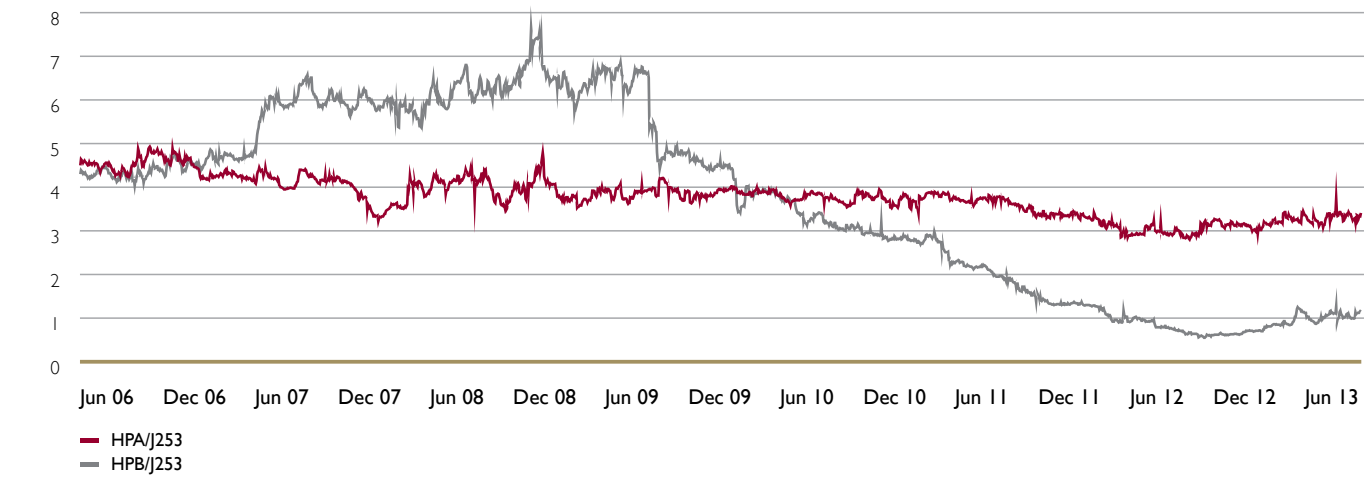
ARABELLA HOTEL AND SPA
Kleinmond

Listed property index (J253 relative to All Bond Index (ALBI)

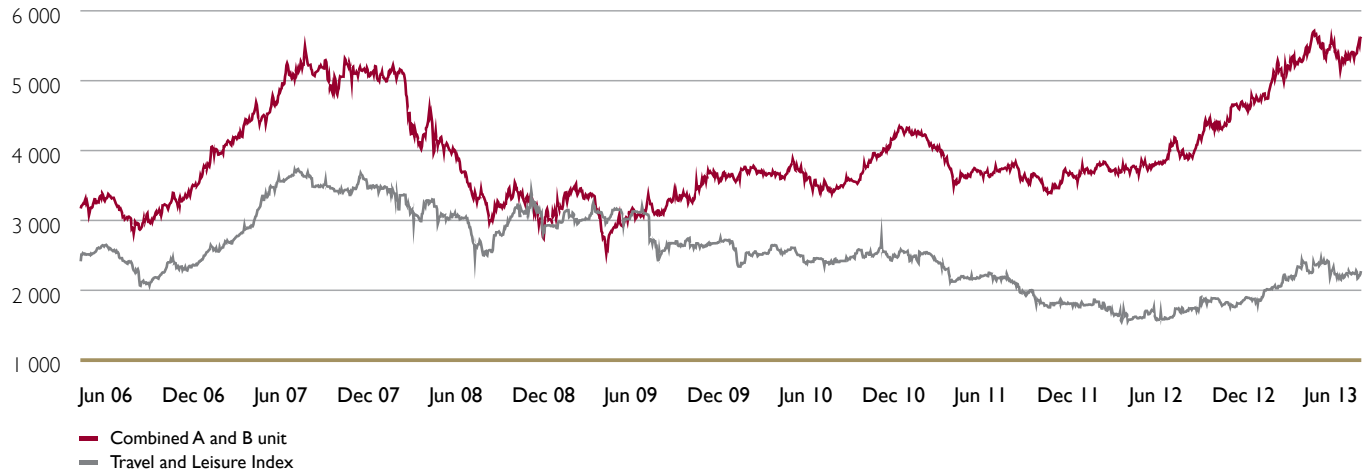
J253 vs ALBI



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

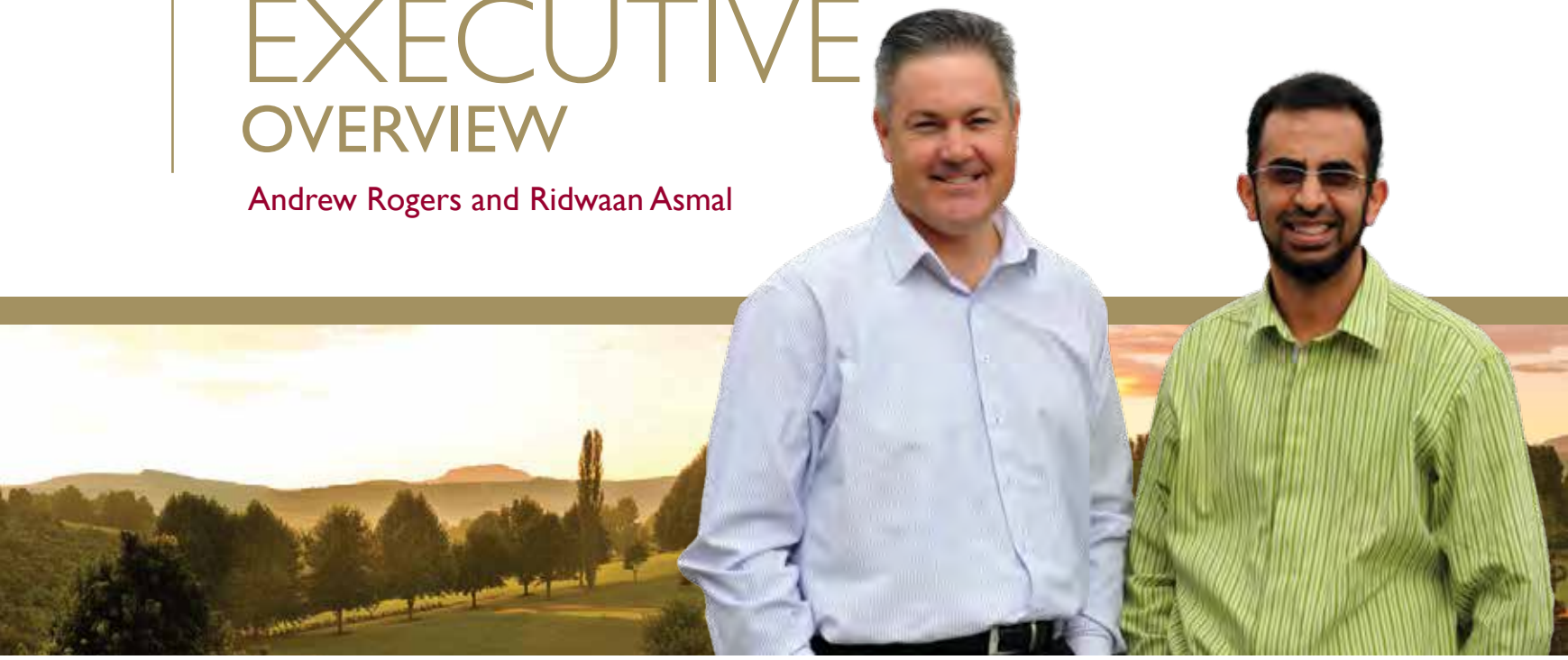


Hospitality combined A and B unit price versus travel and leisure index



EXECUTIVE OVERVIEW

Andrew Rogers and Ridwaan Asmal



CHAMPAGNE SPORTS RESORT
Drakensberg

Executive review

Introduction

The Fund returned strong year-on-year distribution growth, underpinned by a recovering hospitality business environment following the adverse industry-wide operating conditions between 2009 and 2011. The successful resolution of Hospitality's debt refinancing issues in the previous year also contributed to the improved performance. Hospitality has exceeded the forecast set out in its rights offer circular dated 28 May 2012 (forecast), for the year ended 30 June 2013 (the period).

The A-linked unit distribution grew by 19,1% to 134,63 cents, in line with the Fund's distribution structure and the forecast. Distribution on the B-linked unit showed an increase of 128,6% to 18,08 cents compared to the previous corresponding period and exceeded the forecast by 28,2%.

Hospitality continues to enhance the overall quality of its property portfolio, in line with its strategy. Most notably the Radisson Blu Gautrain Hotel that is located in the heart of Sandton was acquired for R443,4 million. Selective refurbishments were also carried out at other properties to ensure their continued appeal and ensure that rental income was not impaired.

Trading environment

According to STR Global, the hotel industry reported a year-on-year increase in occupancy of 4,9% to 61,2% and average room rates (ARR) were up 6,8% to R930, resulting in RevPAR growth of 12,0% for the year ended 30 June 2013. The Fund's trading figures for that portion of its portfolio which is subject to variable rental income (i.e. dependent on operational earnings) continued to track industry trends with an increase in occupancy of 4,4% to 60,1%, while ARR rose 4,8% to R1 020, leading to RevPAR growth of 9,4% for the 12-month period. The disparity between the Fund's RevPAR growth and the industry was more marked in the first six months. This was largely attributable to abnormal income from a product launch in the prior year at the Westin Cape Town and a reduction in available room stock at the Radisson Blu Waterfront during a refurbishment. Excluding these anomalies, the Fund's performance would have been more aligned to industry trends.

The recovery trend in the industry has been underpinned by consistent growth in RevPAR since October 2011. The supply and demand fundamentals in the domestic trading environment are improving, despite muted economic growth. Demand is improving as the oversupply of hotel rooms dissipates with no new major hotels earmarked for development.

In order to manage its utility costs, the Fund completed the roll out of its energy-saving initiatives throughout the portfolio by 30 June 2013 (see page 62 for further information).

Insofar as the Fund's fixed lease properties are concerned, management constantly monitors and interacts with the tenants in order to understand their underlying business performance and evaluate the serviceability of rentals.

Investment strategy

The Fund's investment strategy is to sustainably grow its property base through acquisitions and developments which enhance long-term unitholders' returns. The aim is to continue diversifying the portfolio in South Africa by geographic location, patronage profile and star grading, but with a particular focus on large, well-located properties in major metropolitan areas with strong brands.

Hospitality is delivering on its strategic objective to improve the quality of its property portfolio. It has achieved critical mass by bulking up its property portfolio since its listing and in the last few years the focus has shifted to enhancing the quality of its assets. The Fund has applied a two-fold approach of actively pursuing opportunities to acquire hotel properties that meet its investment criteria while disposing of non-core properties that do not fit this profile. The acquisition of the Radisson Blu Gautrain Hotel (Gautrain Hotel) in Sandton during the period under review and the prior acquisition, in 2011, of the Westin Cape Town, with a combined value exceeding R1 billion are prime examples of this acquisition strategy. In addition, refurbishment and development projects totalling some R750 million completed across the remaining portfolio since 2008 have enhanced the value proposition of Hospitality's core property portfolio.

Hospitality's primary investment focus will remain in South Africa for the foreseeable future, despite the challenging domestic operating environment.

The Fund recognises its duty to optimise returns for unitholders and continually reviews opportunities in certain offshore markets that present attractive long-term investment opportunities. However, a decision to initiate an offshore investment strategy would only follow from the review of multiple variables. Management recognises that the investment case would need to be highly compelling to obtain unitholder support.

Linked units

Hospitality has an equal number of A- and B-linked units in issue which are listed on the JSE Limited (JSE) under the "Financials – 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 debentures to shares.

Domestic Medium-Term Note (DMTN) Programme

During the year, Hospitality registered a R2 billion DMTN Programme with the intention of diversifying a portion of its funding over time from generic bank debt into the debt capital markets. Rand Merchant Bank (a division of FirstRand Bank Limited) was appointed as advisor and transactional bookrunner.

Hospitality concluded its debut auction of R150 million secured notes and a private placement of R120 million unsecured notes into the market in April 2013. The bulk of the proceeds were applied to fund the Radisson Blu Gautrain Hotel acquisition.

The secured notes carry a specific rating of A(za)(sf) from Global Credit Rating Co. and the R150 million on offer was oversubscribed to the extent of bids totalling R395 million. The margin for this 3-year note was closed out at 3-month Jibar plus 182bps.

The unsecured notes were placed at a margin over 3-month Jibar of 240bps for R40 million at 2 years' maturity and 270bps for R80 million at 3 years.

Properties and leases

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

Fixed lease properties

The fixed leases apply to four properties and recorded gross rental income of R124,7 million, accounting for 35% of total rental income for the year.

These properties are: Birchwood Hotel and OR Tambo Conference Centre, Champagne Sports Resort, Kopanong Hotel and Conference Centre and Premier Hotel King David. Rentals under fixed lease agreements are determined by commercial lease terms with inflation linked escalations.

F&V 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 and Spa, Crowne Plaza Johannesburg – The Rosebank, Holiday Inn Sandton – Rivonia Road, Inn on the Square, Mount Grace Country House and Spa, Protea Hotel Edward, Protea Hotel Hazyview, Protea Hotel Hluhluwe and Safaris, Protea Hotel Imperial, Protea Hotel Marine, Protea Hotel Richards Bay, Protea Hotel The Richards, Protea Hotel The Winkler, Protea Hotel Victoria Junction, Radisson Blu Gautrain Hotel, The Bayshore Inn and Westin Cape Town.

The company's 17 F&V lease properties contributed 60% of total rental income for the period with gross rental income of R214,1 million.

Variable lease properties

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

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

For the reporting period, these properties contributed 5% of total rental income with gross rental income of R17,5 million.

Results

Rental income was R5,9 million (1,7%) higher than the forecast set out in the rights offer circular (forecast), growing by R29,7 million (9,1%) compared to 2012. The Fund's overall rental income growth was dampened by the impact of the average rental increase of 3,3% on the fixed lease portion of the portfolio, contributing 35% of total rental income. The Radisson Blu Gautrain Hotel had a marginal impact, contributing to the results for the last two months of the financial

year after the acquisition became effective on 30 April 2013. The rental income growth for the portfolio's other 22 properties subject to variable rental income was 10,5%, driven mainly by improved sentiment in the hospitality industry and the higher ARR's achieved by the Fund.

Fund expenses declined by R10,4 million (25,87%) compared to 2012, but were R2,0 million higher than forecast. The decline was primarily due to the impact in the prior year of the Absa bridge loan fee of R6,7 million, the Paulaner Brauhaus rental loss and closure costs of R4,8 million and a bad debt allowance of R3,8 million raised as a result of tenant arrears. The increase to forecast was due to higher staff incentive costs and additional amortisation of debt raising fees.

Having successfully addressed the debt refinancing issues in the prior year, net finance costs showed a significant decrease of R44,3 million (25,1%) and came in R4,5 million (3,3%) lower than forecast. The decline was due to the rights offer in 2012 which reduced overall debt levels and eliminated the Absa penal bridge loan interest of R13,8 million that was paid in the last four months of 2012. The stable domestic interest rate environment has also been beneficial.

Distributable earnings per combined linked unit grew by 26,2% to 152,71 cents compared to the previous financial year, exceeding the forecast of 148,74 cents by 3,1%. The A-linked unit distribution of 134,63 cents increased by 19,1%, in line with forecast, and due to the impairment in the 2012 distribution due to the once-off impact of the bridge loan. The reported distribution of the B-linked unit of 18,08 cents is 128,6% higher than the previous year and 28,1% above forecast. For the last six-month period the B-linked unit distribution reflected growth of 86% to the forecast.

The following table reflects the operating financial results for the year ended 30 June 2013 compared to the forecast and the previous financial year:

	FY 2013				FY 2012		
	Actual	Forecast	Variance		Prior year	Variance	
	R'000	R'000	R'000	%	R'000	R'000	%
Contractual rental	356 337	350 357	5 980	1,7	326 681	29 656	9,1
Profit on sale of properties	948	–	948	100,0	–	948	100,0
Fund expenses	(29 878)	(27 898)	(1 980)	(7,1)	(40 289)	10 411	25,8
Net finance costs	(132 320)	(136 899)	4 579	3,3	(176 705)	44 385	25,1
Profit before debenture interest	195 087	185 560	9 527	5,1	109 687	85 400	77,9
Taxation	(1 158)	–	(1 158)	(100,0)	(84)	(1 074)	(1 278,6)
Recoupment of debenture interest	6 130	–	6 130	100,0	15 469	(9 339)	(60,4)
Income from associates	125	–	125	100,0	222	(97)	(43,7)
Debenture Interest	(200 184)	(185 560)	(14 624)	7,9	(125 293)	(74 891)	(59,8)
Distribution – A-linked unit	(176 464)	(167 965)	(8 499)	5,1	(118 272)	(58 192)	(49,2)
Distribution – B-linked unit	(23 720)	(17 594)	(6 126)	34,8	(7 021)	(16 699)	(237,8)
Number of linked units	137 238	124 761	12 476	10,0	124 761	12 476	10,0
Distribution – A-linked unit (cents)	134.63	134.63	–	0,0	113.08	21.55	19,1
– Interim	66,51	66,51	–	0,0	63,34	3,17	5,0
– Final	68,12	68,12	–	0,0	49,74	18,38	37,0
Distribution – B-linked unit (cents)	18,08	14,11	3,97	28,1	7,91	10,17	128,6
– Interim	9,19	9,33	(0,14)	(1,5)	7,91	1,28	16,2
– Final	8,89	4,78	4,11	86,0	–	8,89	100,0
Combined distribution (cents)	152,71	148,74	3,97	2,7	120,99	31,72	26,2
– Interim	75,70	75,84	(0,14)	(0,2)	71,25	4,45	6,2
– Final	77,01	72,90	4,11	5,6	49,74	27,27	54,8

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

Funding

The group's debt facilities with financial institutions as at 30 June 2013 amounted to R1,73 billion. Total funds withdrawn on these facilities were R1,57 billion resulting in a loan to value (LTV) ratio (total interest bearing liabilities/investment property value) of 34,4% (2012: 35,2%). The interest cover ratio (ICR) was 2,47 which meets the minimum covenant level of 1,75 required by the debt providers. The weighted average cost of borrowings was 8,56% (2012: 9,74%) for the period under review with 44% of the group's borrowings at year-end subject to fixed interest rates through interest rate swap structures. The interest rate swap agreements that were in place at year-end amounted to R693,3 million.

The Fund continually plans and strategises the best possible method of funding new acquisitions and replacing debt. This includes considering new unit issues, replacement of bank funding and the group's note programme. When issuing new debt the group intends to spread the maturity to reduce its dependence or replacing large loans in any single year. The Fund is cognisant of the level of debt expiring in 2016 and is currently in discussions with debt funders.

Debt facility at 30 June 2013

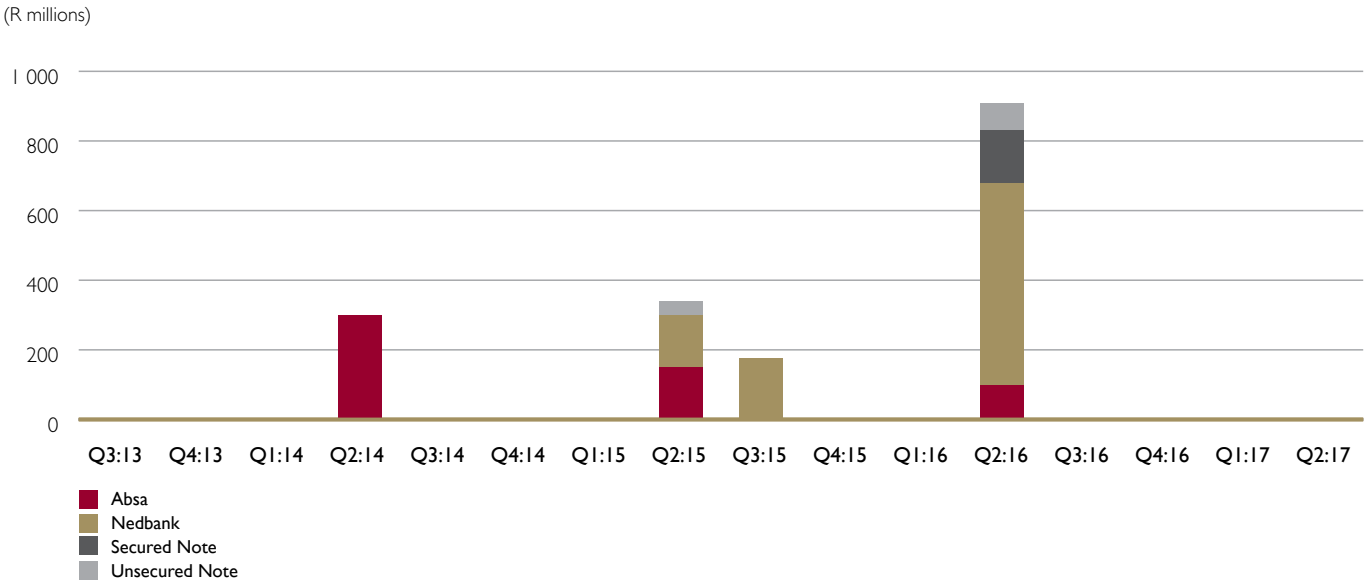
	Facility	Expiry	Margin
Nedbank	**R'000**		
Loan 1	176 300	July 2015	3-month JIBAR plus 2,9%
Loan 2	400 000	May 2016	3-month JIBAR plus 2,9%
Loan 3	30 250	May 2016	3-month JIBAR plus 2,9%
Loan 4	150 000	June 2015	3-month JIBAR plus 2,7%
Loan 5	150 000	June 2016	3-month JIBAR plus 2,84%
	906 550		
Absa Bank	**R'000**		
Facility A	200 000	June 2014	3-month JIBAR plus 2,05%
Facility B	150 000	June 2015	3-month JIBAR plus 2,47%
Facility C	100 000	June 2016	3-month JIBAR plus 2,84%
Facility D – revolving loan	100 000	June 2014	3-month JIBAR plus 2,05%
	550 000		
Corporate bonds	**R'000**		
Secured – HPF 01	150 000	April 2016	3-month JIBAR plus 1.82%
Unsecured – HPF 02	40 000	April 2015	3-month JIBAR plus 2.4%
Unsecured – HPF 03	80 000	April 2016	3-month JIBAR plus 2.7%
	270 000		
Total facility	**1 726 550**		

The following swap agreements were in place at year-end:

	FY 2013	FY 2012	Nominal rate	Maturity date
Swap 1	–	346,67	7,42%	11 June 2013
Swap 2	**346,67**	346,67	7,75%	11 June 2014
Swap 3	**346,67**	346,67	7,98%	11 June 2015
	693,34	1 040,01		

The debt maturity profile of the Fund is as follows:

Debt maturity profile of the Fund



Property portfolio

The Fund's portfolio comprises interests in 27 hotel and resort properties in South Africa. As at 30 June 2013, the book value of the portfolio was R4,56 billion. In line with its strategy of focusing on large, well-located properties with strong brands in major metropolitan areas, the Fund has identified certain non-core properties, valued at R318,9 million, for disposal. It is currently at various stages of negotiation regarding the disposals, details of which will be released in due course.

The net asset value per linked unit as at 30 June 2013 was R10,95, an increase of 9,5% from 2012 primarily as a result of an increase in the valuation of the standing portfolio. The weighted average lease expiry period is 9,04 years.

In April 2014, the ownership of the Courtyard Cape Town property, currently 50:50 owned by the Fund and City Lodge, will revert to the University of Cape Town. The valuation of this property was written down to zero in June 2013 from R0,95 million in the prior year. There will be no further impairment in 2014.

Acquisitions

In line with the Fund's acquisition strategy, Hospitality acquired the Radisson Blu Gautrain Hotel for a total consideration of R443.4 million on 30 April 2013. The acquisition was funded by a R275,0 million vendor consideration placement, the issuance of R150,0 million secured notes and the private placement of R18,4 million unsecured notes.

The Radisson Blu Gautrain Hotel is highly visible, directly across from the Sandton Gautrain Station on Rivonia Road, which is the main transport hub in the Sandton CBD. The hotel is made up of various sections of the sectional title scheme known as Sandton Eye and comprises 216 rooms, 8 conference facilities, the Central One Restaurant and Bar, an outdoor bar and swimming pool, as well as a fitness centre and allocated underground parking bays.

Based on its anticipated trading performance and cost of funding, the property is expected to be earnings-accretive from the outset, with a projected yield of approximately 8.15% in year one, growing by approximately 15% in year two. The seller has provided a limited rental guarantee for the first two years of trading following registration of transfer.

Developments and capital projects

The Fund invested a total of R19,7 million to complete various refurbishment projects during the period under review.

Details of the noteworthy refurbishment projects are as follows:

- Protea Hotel The Richards, located in Richards Bay, is undergoing a R4,5 million renovation to upgrade the soft furnishings in 97 bedrooms.
- A R6,0 million project at the Protea Hotel Hluhluwe and Safaris, located close to the Umfolozi/Hluhluwe Game Reserve. The renovation of the property's 75 bedrooms and bathrooms will be completed ahead of schedule, before the peak 2013 summer trading season.

Although those refurbishment projects are being carried out on properties earmarked for disposal, the investments will ensure that they maintain their market positioning while enhancing the appeal to potential buyers.

The majority of the F&V lease properties have been refurbished during the last five years, and therefore require minimal further capital expenditure in the short term. The high quality of the Fund's properties will continue to provide a solid platform to benefit from improved trading in a recovering market. The Fund is cognisant of future refurbishment projects that will attract additional capital investment.

The application process for the development rights on the Phase 2 land at Arabella Hotel and Spa is in progress. The Fund submitted its revised environmental impact assessment on 16 July 2013, which incorporated adjustments to the development to meet the additional requirements of the Ministry of Local Government, Environmental Affairs and Development Planning while still positioning Arabella to attain its full potential as a premier golf and leisure resort of international standing.

This new development option that has been tabled is confined to areas of low environmental sensitivity and is also more cost effective with regard to the provision of bulk services infrastructure and roads. It has the added benefit of providing a greater spectrum of recreational facilities to expand the resort's existing offering. The Fund expects a response from the relevant authorities in 2013. If the development rights are secured, 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 of 27 hotel and leisure properties is diversified in terms of geographic location, star grading, fixed and variable income, lease expiry profile, market mix and brands. However, it is the Fund's portfolio and asset management expertise which ensures its long-term ability to deliver on the return potential of these assets 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 a number of potential 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 analyses and reviews of economic trends are conducted by the Fund and the findings are shared with tenants to optimise the performance of the properties.

Among the challenges in the current operating environment are the substantial increases in overhead costs, particularly administered prices such as power, water and municipal rates. As these costs are not under the control of the Fund, the focus is on pro-actively managing consumption through energy and water-saving initiatives (see pages 62 and 63 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 analyses and forecasting. These reports are distributed daily for analysis by the Hospitality team.

- Revenue Management: The use of Property Management Software system that includes all guest information facilitates effective forecasting and accurate pricing.
- 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.
- 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.
- 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.
- 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.
- 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 of 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 re-assessed for relevance and in accordance with the risk management programmes in place at the hotels.

Liquidity

During the year, 27,1% of the A-linked units and 41,0% of the B-linked units were traded on the JSE Limited.

Board of directors

New appointments to the board during the year were as follows:

- Mr Don Bowden was appointed as an independent non-executive director to the board with effect from 24 August 2012 and took up the position of Chairman from Mr Willy Ross on 30 June 2013. Mr Ross assumed the role of Acting Chairman following Mr Frank Berkeley's resignation in February 2012. The board thanks Mr Ross for his leadership and support during his time as Acting Chairman.
- Mr Syd Halliday was appointed as Independent Non-Executive Director on 30 June 2013. His career as a lending banker exceeds 30 years.
- Mrs Anitha Soni was appointed as Independent Non-Executive Director on 30 June 2013. She has extensive senior level experience in the domestic and international tourism sector.
- Ms Zola Ntwasa was appointed as Independent Non-Executive Director on 8 July 2013, she has an investment banking and property finance background.

The following resignations from the board took place during the year:

- Mr Youseph Aminzadeh resigned as non-executive director with effect from 1 December 2012. He was closely involved with the Fund since its inception and during his tenure he contributed his knowledge and experience of the tourism and hospitality industries to creating and developing Hospitality.
- Mr William Midgley resigned as non-executive director with effect from 29 March 2013. He was intimately involved in the listing of Hospitality and subsequently joined the board in a non-executive capacity in January 2008.
- Mrs Brenda Madumise resigned as non-executive director from the board on 30 April 2013 after serving as a director for the last seven years.

The board thanks Messrs Aminzadeh, Midgley and Mrs Madumise for their invaluable contributions.

Mr Gerald Nelson, who was the co-founder of the Fund and held the position of Chief Executive Officer (CEO), retired as CEO of the Fund at the end of June 2013. He remains on the board as a non-executive director. He was succeeded by Mr Andrew Rogers, the deputy CEO of the Fund, Mr Ridwaan Asmal remains the Financial Director.

Prospects

The outlook for the hospitality industry is positive, particularly in major cities where business volumes have shown a strong recovery. Whilst room rate growth has been muted, and has not achieved the levels required to justify new hotel developments, the lack of new capacity is likely to lead to demand outstripping medium-term supply in the major markets. Room rates remain lower than the long-term trend that was reflected prior to 2008 and are largely still recording rates last seen at that time. The high cost of land, the limited availability of capital and a residual perception of oversupply in major nodes will mean that the pace of new hotel developments is likely to be slow. Currently acquisition opportunities are providing higher relative returns than bringing new developments on stream.

The Fund's focus over the next year continues to be on optimally growing room rates in order to further improve its profitability as occupancies continue to track upwards across the industry.

Distributions for the 12 months ending 30 June 2014 are expected to be at least in line with the forecast issued in the rights offer circular of 141,36 cents per A-linked unit and 26,72 cents per B-linked unit earned evenly across the distribution periods.

The Fund's underlying performance in the financial year 2015 is likely to be impacted by a change within its fixed lease portfolio as the current lease at Birchwood Hotel and OR Tambo Conference Centre converts into a fixed and variable lease at the end of June 2014.

This is expected to result in a reversion in rental at Birchwood of between 10% and 20% in the 2015 financial year. The Fund is currently exploring yield-enhancing opportunities in the existing portfolio to expand this property's income stream, thereby mitigating the impact of the rental dilution.

Appreciation

Management extends its gratitude to the board of directors who continued to provide insightful and valuable advice and guidance on matters impacting the Fund during the year.

In particular, management acknowledges the critical role of Gerald Nelson during his tenure as CEO. Under his leadership, Hospitality accrued a high-quality portfolio of properties with critical mass and overcame significant hurdles. He leaves the Fund in a strong position to benefit in the recovering hospitality market.

Management thanks the Fund's loyal unitholders, its new bondholders and its supportive financial institutions for providing the capital that enabled Hospitality to pursue attractive growth opportunities during the year.

Management also thanks the employees of Hospitality for their continued loyalty, efforts and commitment, without whom the improved performance in 2013 would not have been possible.

And finally, we are grateful to our tenants and the employees of the hotel management companies for their significant contribution to our 2013 performance.

CHAMPAGNE SPORTS RESORT
Drakensberg

WESTIN CAPE TOWN

GOVERNANCE,
RISK AND SUSTAINABILITY

Governance

The board is the focal point of corporate governance for the group. The board is responsible for and ensures the establishment of structures and processes that create a framework for responsible leadership and the sustainable success of the group.

Company Secretary Team – Ziyaad Laher and Rosa van Onselen

The board ensures the adoption and implementation of the necessary policies and processes in order to strengthen governance within the group.

The board has established a number of committees to give detailed attention to certain of its responsibilities and to assist in the execution of specific authorities and powers. Information contained in the report below relates to the financial year ended 30 June 2013.

RADISSON BLU WATERFRONT
Cape Town

Summary of attendance at board and sub-committee meetings

For the period 1 July 2012 to 30 June 2013	Board	Audit	Social and ethics	Investment	Remuneration	Nomination
Number of meetings held	5	5	4	2	2	4
D G Bowden	4	4	–	–	1□	–
KH Abdul Karrim	5	4	–	2	–	–
Y Aminzadeh (resigned 1 December 2012)	2	–	–	–	–	–
R Asmal	5	5•	4	2•	–	1•
L de Beer	5	5	–	–	–	1□
ZN Kubukeli	5	–	4	2	–	4
MB Madumise (resigned 30 April 2013)	4	–	3	–	2	3
WM Midgley (resigned 29 March 2013)	4	–	–	–	–	–
GA Nelson	5	5•	4	2•	2•	4•
AS Rogers	5	3•	2•	2	1•	1•
WC Ross	5	5	–	2	2	4

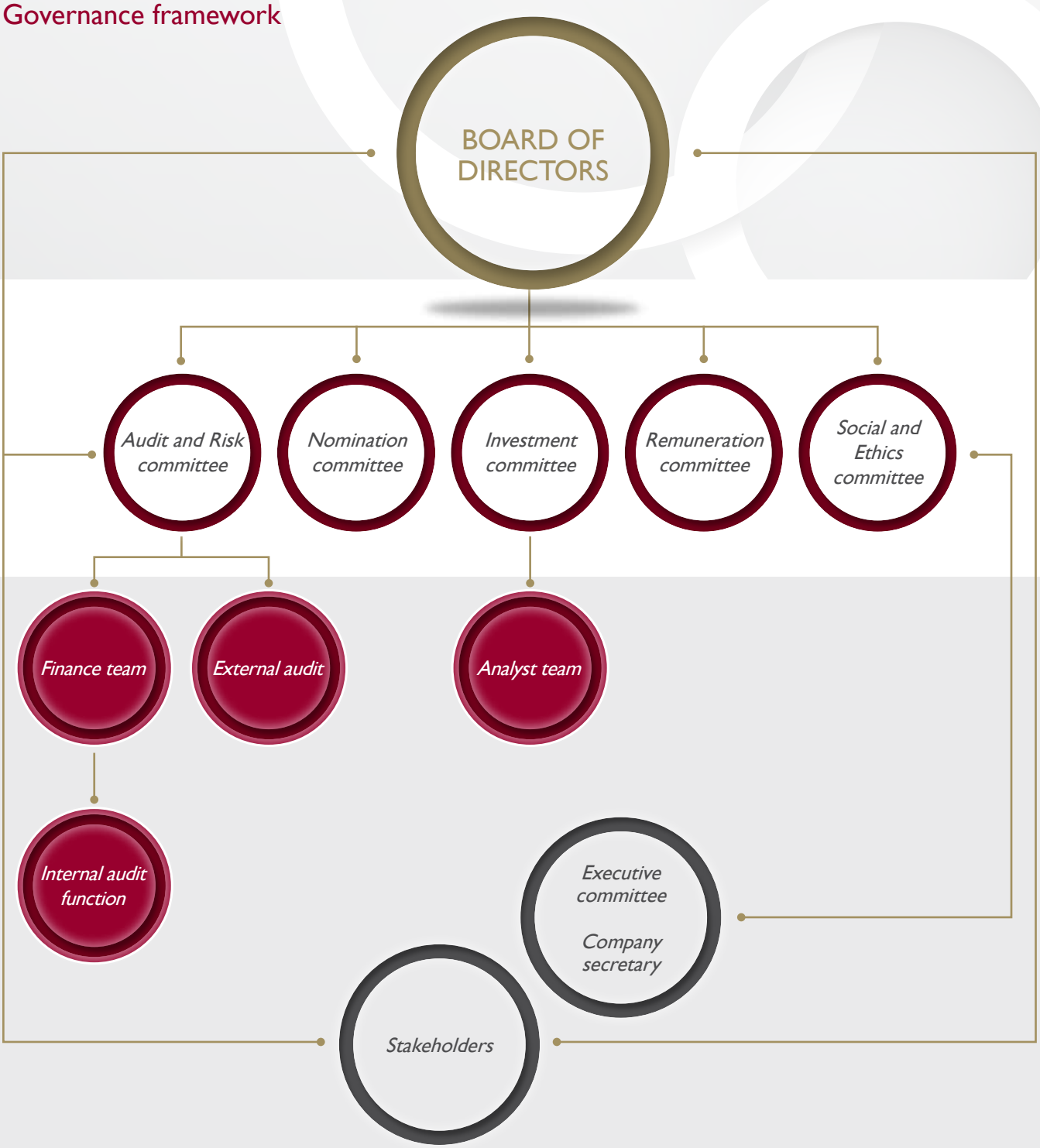
SA Halliday and A Soni were appointed to the board on 30 June 2013.

Z Ntwasa was appointed to the board on 8 July 2013.

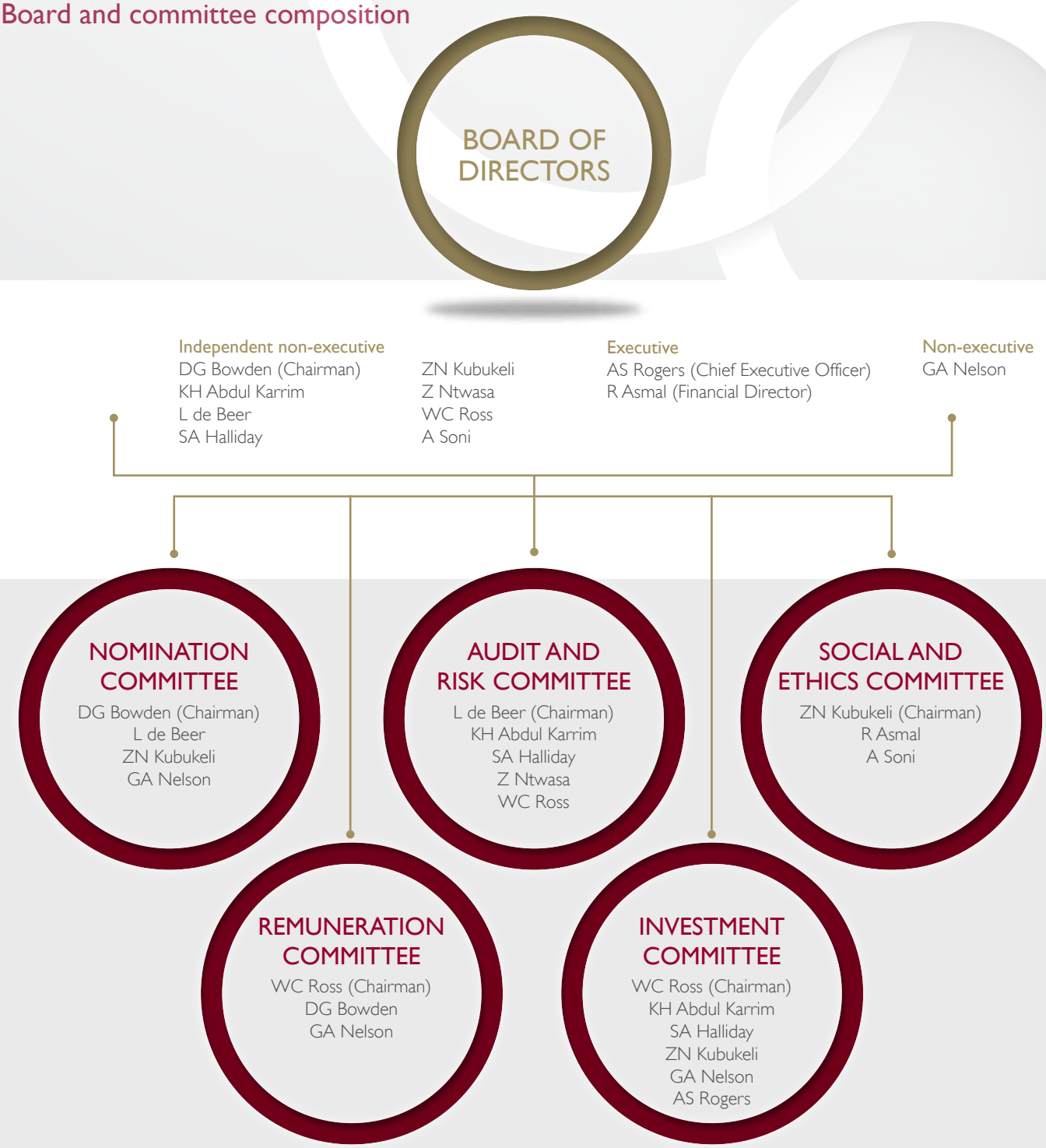
Appointed to the Board on 24 August 2012
- *By invitation*

□ *Appointed to the committee on 30 April 2013*

Governance framework



Board and committee composition



The board

Composition, roles and responsibility

Don Bowden was appointed as chairman of the board on 30 June 2013. The board comprises 11 members, of which one is non-executive, eight are independent non-executive and two are executive. The following changes occurred in the composition of the board and the main responsibility of board members during the 2013 financial year:

Board member	Change	Effective date
DG Bowden	Appointment as independent non-executive director	24 August 2012
	Appointment as independent chairman	30 June 2013
Y Aminzadeh	Resignation as a non-executive director	1 December 2012
SA Halliday	Appointment as independent non-executive director	30 June 2013
GA Nelson	Retired as CEO, but remains on the board as non-executive director	30 June 2013
WJ Midgley	Resignation as non-executive director	29 March 2013
MB Madumise	Resignation as independent non-executive director	30 April 2013
AS Rogers	Appointed as CEO	30 June 2013
WC Ross	Resignation as acting independent chairman	30 June 2013
A Soni	Appointment as independent non-executive director	30 June 2013
Z Ntwasa	Appointment as independent non-executive director	8 July 2013

The board's responsibilities and objectives are set out in its terms of reference.

The board exercises control of the group and provides 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 ensures the implementation of a group risk management programme and monitors the group's performance.

Chairman, CEO and executive directors

There is a clear separation between the roles and responsibilities of the Chairman and the Chief Executive Officer (CEO) as well as the levels of authority at which management can operate and run the business. The Chairman is responsible for the effective functioning of the board and is an independent non-executive director. The company's Memorandum of Incorporation (MOI) clearly describes which matters are reserved for the Board and shareholders. Board decisions are by majority vote, which prevents domination by any one director. Gerald Nelson retired as CEO on 30 June 2013 and remains on the board as a non-executive director. Andrew Rogers (previously the Deputy CEO) has taken up the position of CEO and is the principal representative of the group. He is responsible for the operation of the business and for leading the executive committee. The executive committee ensures the implementation of strategies and objectives as agreed and monitored by the Board.

Meetings and conduct

Board meetings are held quarterly and additional meetings are convened when circumstances necessitate. Formal agendas and board reports are prepared for all meetings to ensure that matters that require attention are properly addressed and that directors are provided with the necessary information in order to prepare thoroughly and to make informed decisions. All directors have access to the Chairman, the executive committee and the Company Secretary.

Appointment, rotation and terms of employment

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

Apart from the Chairman, one-third of the non-executive directors retire from office by rotation at the company's annual general meeting (AGM) and if eligible may offer themselves for re-election. In accordance with the company's MOI, the Chairman may hold office for a maximum period of three years, upon expiry of which he shall be eligible for re-appointment for a further three-year period.

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 subject to three and two months' notice periods, respectively, and do not include restraints of trade.

The termination of executive directors' contracts of employment will result in a concomitant termination of their board appointments.

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 group.

Induction and training

New directors that are appointed to the board are advised of their responsibilities and are provided with information on the group, its policies and procedures, board and committee terms of reference and copies of past meeting minutes. They are also given the opportunity to attend workshops on governance, the Companies Act, 71 of 2008 (Companies Act), and JSE Limited Listings Requirements (Listings Requirements). Training on changing regulations and legislation and briefings on market developments for existing directors are scheduled as and when required and usually involve the company's analysts, sponsors, auditors or organisations such as the Institute of Directors.

Committees of the board

Structure and reporting

Every committee operates within defined, written terms of reference, which are regularly reviewed by the board in order to ensure compliance with best practice and alignment with changing legislation. Committee chairmen report back to the board at least quarterly.

Audit and risk committee

Composition: Linda de Beer (Chairman)#, Kamil Abdul Karrim#, Syd Halliday#, Zola Ntwasa#, Willy Ross#

 # independent

The committee comprises five independent non-executive directors and is chaired by Linda de Beer. The members of the committee are recommended by the board and appointed annually by shareholders at the company's AGM. Don Bowden who had served on the committee since 24 August 2012, resigned on 30 June 2013, when he was appointed to the board as independent non-executive chairman. Syd Halliday was appointed as a member of the committee effective 30 June 2013, and Zola Ntwasa on 8 July 2013.

The committee meets at least quarterly and once in June to focus on the budget.

The committee has an independent role with accountability to both the board and shareholders. During the period under review, the committee has carried out its responsibilities in terms of statutory compliance as set out in its report on page 70 and as recorded in its terms of reference.

The Chairman of the Board, CEO, Financial Director, Group Financial Manager and external auditor attend committee meetings by invitation. The external auditor has unrestricted access to the committee and its chairman. The external auditor meets with the members of the committee bi-annually to report their findings to the committee with members of the executive committee not in attendance. Private sessions are also held bi-annually with management.

The committee reviews the content of the integrated report and oversees the integrated reporting process.

The committee monitors management's risk programme and framework and policies, the details of which may be found on page 57 of the integrated report.

Social and ethics committee

Composition: Zuko Kubukeli (Chairman)#, Ridwaan Asmal*
Anitha Soni#

 # independent
** executive*

The committee comprises two independent non-executive directors and an executive director.

Brenda Madumise and Gerald Nelson resigned as members of the committee with effect from 30 April 2013 and 30 June 2013, respectively. Anitha Soni was appointed as a member of the committee with effect from 30 June 2013.

The committee's statutory duties include the monitoring of the group's activities on social and economic development, anti-corruption principles, the Employment Equity Act, Broad-Based Black Economic Empowerment, good corporate citizenship, the environment, health and public safety and consumer relationships.

In addition to its statutory duties the committee considers bursaries and learnerships.

Ethics management

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 and to entrench these ethical standards throughout the group.

The group's code of ethics is underpinned by supporting policies which include the group's conflicts of interest and independence policies. The group through its social and ethics committee endeavours to ensure that its ethical tone is shared and implemented by its contracted hotel operators.

The group through its social and ethics committee 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 of water and energy-saving programmes across its property portfolio, further details of which commence on page 61. Communication with its stakeholders is open and honest and without prejudice and is supported by a disclosure of information policy.

Whistle-blowing procedures are in place at Group and hotel operator levels.

The committee is required to report to shareholders on matters within its mandate at the company's AGM. Please refer to pages 59 to 66 of this report. Any specific questions regarding matters within the mandate of the committee may be submitted to the company secretary prior to the AGM.

Investment committee

Composition: Willy Ross (Chairman)#, Kamil Abdul Karrim#, Syd Halliday#, Zuko Kubukeli#, Gerald Nelson^, Andrew Rogers*

 # independent
^ non-executive
** executive*

The committee comprises six directors of whom one is non-executive, four are independent non-executive and one is executive. Willy Ross took up the position of chairman of the committee from Kamil Abdul Karrim on 30 June 2013. Syd Halliday and Gerald Nelson were appointed to the committee with effect from 30 June 2013.

The Financial Director and the Chief Analyst attend meetings by invitation.

Meetings of the committee are held when required to consider the viability of capital investments in properties, acquisitions and disposals of properties, the entering into of new lease agreements or the extension of existing lease agreements together with related strategic and operational plans and funding alternatives.

Matters which fall outside of executive management's approved authority limits are presented to the committee for consideration. The executive committee, supported by a team of analysts, prepares proposals for submission to the committee and based on recommendations and agreements reached by the committee, represents the company in negotiations with third parties.

Transactions are considered individually in line with the company's strategies and objectives. Proposals that are believed to be feasible are, based on the size of the transaction, recommended to the board in line with the committee's terms of reference, for approval.

Nomination committee

Composition: Don Bowden# (Chairman), Linda de Beer#, Zuko Kubukeli#, Gerald Nelson^

 # independent
^ non-executive

The committee comprises three independent non-executive directors and one non-executive director. The committee is chaired by the Chairman of the Board. Brenda Madumise and Willy Ross resigned from the committee with effect from 30 April and 30 June 2013, respectively. Linda de Beer and Don Bowden were appointed to the committee on 30 April 2013 and 30 June 2013 respectively.

The committee's duties include identifying and evaluating potential candidates for appointment to the board, making recommendations to the board on its composition and the composition of its committees in terms of its mix of skills and expertise and size of the board and its committees. The committee reviews and ensures that formal succession plans are developed and implemented for the executive committee and reports back to the board thereon.

The directors who seek election to Hospitality's board are Anitha Soni, Zola Ntwasa and Syd Halliday.

Remuneration committee

Composition: Willy Ross# (Chairman), Don Bowden#, Gerald Nelson^

 # independent
^ non-executive

The committee comprises three directors of whom two are non-executive independents and one is a non-executive director. Brenda Madumise resigned from the committee on 30 April 2013. Gerald Nelson was appointed to the committee on 30 June 2013.

The committee oversees the setting of remuneration policies for the group, ensures that the company remunerates directors and

executives fairly and responsibly, evaluates the performance of the CEO and executive directors and recommends the remuneration of non-executive directors, to the shareholders for approval.

The committee's remuneration report may be found on page 51 of this report.

Board effectiveness

Annual questionnaire based evaluations are undertaken by the directors, which includes an assessment of the performance of the board, the Chairman, CEO, individual directors and every committee of the board. The questionnaires are compiled in line with best practise recommendation and provide the opportunity for any matter not specifically covered in the questionnaire to be raised separately.

Assurance of the integrated report

The board reviews and approves the integrated report after satisfying itself with the accuracy and integrity of the report. At this early stage of integrated reporting the group has not sought external verification of the content of the integrated report. The external auditor, KPMG Inc. has provided assurance on the annual financial statements as confirmed in the report of the independent auditor.

Remuneration report

The group's remuneration philosophy is to:

- Attract, reward and retain executives and staff of the requisite calibre, with the appropriate knowledge, attributes, skills and experience to add meaningful value to the group.
- 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 growth and innovation with appropriate short- and long-term rewards that are fair and reasonable.

All benefits paid to directors during the reporting period, may be found on page 107 of this report and include basic remuneration, bonus payments and participation in long-term incentive schemes.

Executive directors and staff

- Basic remuneration

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

- Annual short-term scheme/bonus payments

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

- Long-term incentives/participation in share incentive schemes

The HPF Employee Incentive 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. The beneficiaries and their respective allocations are agreed by the Remuneration Committee for approval by the board. The trust units vest in equal parts over a period of three years from the date of acceptance of a beneficiary of his/her allocation. 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.

Non-executive directors

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

- a basic fee in the form of an annual retainer for the board, audit and risk and social and ethics committees; and
- a per meeting fee for actual attendance in the instance of the investment, nomination and remuneration committees members.

The Chairman of the board and chairmen of the respective board committees are paid higher annual retainers than other directors as compensation for their extra responsibilities. No share options or other incentive awards geared to share price or corporate performance are made to non-executive directors.

Non-executive directors' fees are approved by shareholders by a special resolution at the company's AGM. Please refer to page 131 of the AGM notice.

Group finance function, internal audit and control processes

The group's finance team, comprising the Financial Director (FD), Group Financial Manager (GFM), Accountant and Assistant Accountant maintains the accounting records for the group, ensures all lease

agreements are in place, issues tenant rental invoices on a monthly basis, collects rental payments and ensures that all payments are made to suppliers within the contractual time periods.

The group's payroll function is outsourced while the administrative and human resource function is performed by the Accountant. On performing the year-end audit, the external auditor reviews 100% of the rental income and the majority of the payments comprising interest paid, staff remuneration, rentals and overheads.

No internal audit function exists at head office level due to the limited number of transactions and the principle risks lying with the hotel operations. See page 57 for Hospitality's risk report.

The finance teams of the majority of the hotel management companies are headed by a FD and a GFM based at head office. Every hotel also has a decentralised accounts team based at the hotel which, depending on the size of the hotel, comprises a Financial Controller, Accountant, Debtors Administrator, Creditors Administrator, Revenue Auditor and Stock Controller. The FD and GFM of the hotel management company are responsible for the accuracy of the financial reporting and internal control processes of the individual hotels. Hospitality's finance and operation teams meet monthly with the individual hotel's finance and management teams on site or with the individual hotel management companies separately to discuss the month under review.

Internal audits were conducted during the year under review at the majority of the hotels by a member of the respective management company's finance team. Hospitality's executive management reviews the outcome of each internal audit and reports to the audit and risk committee on any material risks.

The fixed leased tenants being Birchwood Hotel and OR Tambo Conference Centre, Champagne Sports Resorts, Kopanong Hotel and Conference Centre and Premier Hotel King David all have individual accounts teams based at the respective hotels. As Hospitality is not exposed to variable rentals at these properties, a detailed review of the internal audit function is not performed at these hotels.

Effectiveness of internal controls

The group has established and maintains financial and operational systems of internal control to provide reasonable assurance of the reliability of financial statements, that transactions are concluded in accordance with management's authority and are accurately recorded, that the group's assets are appropriately protected against material losses, unauthorised disposals or acquisitions.

These systems include policies and procedures regarding authorisation, the safeguarding of assets, asset accountability, and segregation of duties. The systems of internal controls are monitored by executive management and spot-tested annually by external audit. Any control deficiencies identified are addressed and the necessary corrective actions taken.

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 company have been approved by the board and management acts within these authorities.

Dealing in the linked units of Hospitality

Hospitality share dealing policy prohibits any director or staff member of the group from dealing, directly or indirectly, in the linked units of the company during restricted periods. This includes any price-sensitive period as determined by the board, any period where the linked units are trading under cautionary and the periods between the end of the interim and annual reporting periods and the announcement of the financial results for such respective periods released on SENS.

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

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. The Company Secretary coordinates the induction programme for newly appointed directors, as well as the annual board evaluation process.

Directors have unrestricted access to the advice and services of 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.

The Company Secretary is not a member of the board and the board is therefore satisfied that an arm's length relationship exists between her and the board of directors.

Communication and investor relations

Hospitality meets regularly with institutional investors and investment analysts and hosts annual results presentations on the company and its performance. The company communicates with the broader investor community via press releases and direct interviews. Hospitality's website http://www.hpf.co.za is used as a tool in communicating with its stakeholders. See page 59 for further details on shareholder communication and stakeholder engagement.

The AGM is an ideal opportunity for unitholders to engage with the directors and management team and unitholders are encouraged to attend this event.

Hospitality has applied King III throughout the reporting period.

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.

Hospitality complies with the mandatory principles contained in paragraph 3.84 of the Listings Requirements.

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

Application of King III Principles 2013

Principle		Status	Comment/Reference in 2013 Integrated Report
2.1	The board should act as the focal point for and custodian of corporate governance	Applied	Governance Report (page 48). Annually, a high-level overview is undertaken of the group's governance as part of the external audit.
2.2	The board should appreciate that strategy, risk, performance and sustainability are inseparable	Applied	Governance Report (page 48) and Risk Report (page 57). The board controls the group and provides 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 held its annual strategy session with management in January 2013. 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	Ethics Management (page 50).
2.4	The board should ensure that the Company is and is seen to be a responsible corporate citizen	Applied	Ethics Management (page 50) and Stakeholder Sustainability Report (page 59).
2.5	The board should ensure that the Company's ethics are managed effectively	Applied	Ethics Management (page 50).
2.6	The board should ensure that the company has an effective and independent audit and risk committee	Applied	Governance Report (page 49). The board performs an annual assessment of the performance of the audit and risk committee and its chairman. The report of the audit committee can be found on page 70 and confirms that the committee has fulfilled its duties as set out in the Companies Act, its terms of reference and King III.

Principle	Status	Comment/Reference in 2013 Integrated Report
2.7 The Board should be responsible for the governance of risk	Applied	Governance Report (pages 44 and 49) and Risk Report (page 57). 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 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 and risk committee on this. Reporting on information technology governance to the audit and risk committee requires 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, every department takes responsibility for ensuring compliance with relevant laws, codes and standards. Reporting to the board requires further refinement.
2.10 The board should ensure that there is an effective risk-based internal audit	Partially applied	Governance Report (pages 51 and 52). 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.
2.11 The board should appreciate that stakeholders' perceptions affect the company's reputation	Applied	Ethics Management (page 50). The disclosure around stakeholder communication will be further developed in 2014.
2.12 The board should ensure the integrity of the company's integrated report	Applied	Governance Report (page 51).
2.13 The board should report on the effectiveness of the company's system of internal controls	Partially applied	Governance Report (page 52). The Board is comfortable that internal controls are in place. At this point in time no written independent assessment of internal controls are obtained.

Principle	Status	Comment/Reference in 2013 Integrated Report
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 recused 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	The Company Secretary ensures that directors are aware of their fiduciary duties in terms of the Companies Act. 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. 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 fulfil the role of Chairman of the board	Applied	Governance Report (page 48).
2.17 The board should appoint the CEO and establish a framework for the delegation of authority	Applied	Governance Report (page 48).
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	Governance Report (page 48).
2.19 Directors should be appointed through a formal process	Applied	Governance Report (page 48).
2.20 The induction and ongoing training and development of directors should be conducted through formal processes	Applied	Governance Report (page 49).
2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary	Applied	Governance Report (page 52).

PROTEA HOTEL MARINE
Port Elizabeth

Principle	Status	Comment/Reference in 2013 Integrated Report
2.22 The evaluation of the board, its committees and the individual directors should be performed every year	Applied	Governance Report (page 51).
2.23 The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	Applied	Governance Report (page 49).
2.24 A governance framework should be agreed between the group and its subsidiary boards	Applied	The same governance structure has been adopted by all the Hospitality group of companies. The group structure can be found on pages 46 and 47.
2.25 Companies should remunerate directors and executives fairly and responsibly	Applied	Remuneration Report (page 51).
2.26 Companies should disclose the remuneration of each individual director and certain senior executives	Applied	The remuneration of individual directors and any prescribed officers is disclosed in this integrated report on pages 107 and 108.
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.

Risk management

The board, assisted by the audit and risk committee, is primarily responsible for overseeing risk management. Hospitality recognises that it is essential to appropriately manage all business risks that may have an impact on the Fund's performance and its sustainability. Measures to mitigate key risks facing the Fund have been recognised and implemented, whether they are systemic or specific to the group.

In analysing its strategic risks, the Fund is cognisant that it does not operate in isolation from the business environment, which has a very real impact on its performance.

A summary of the major strategic risks and the resultant mitigation measures are detailed in the table below:

Risk	Risk identification	Risk mitigation	Current status
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 market segments: corporate, government, conferencing and leisure. Increase in sales and marketing efforts in depressed market.	Continuous analysis of marketing conditions to identify weakness, formulate appropriate strategies and implement action plans as early as possible.
Financing and cost of borrowings	On expiry of loans, refinancing subject to financial institution internal credit policies and risk assessment of business.	Debt facilities to be spread across multiple financial institutions and over varying periods. Alternative financing options to be obtained other than traditional bank financing. Facilities to be secured and loan agreements signed at least four months prior to expiry of loans.	Domestic Medium-Term Note Programme launched with secured and unsecured notes issued. Maturity profile tabled at audit committee meetings quarterly and renewal of facilities to be concluded three months prior to expiry.
Choice of 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.
Skills retention and succession planning	Shortage of suitably skilled staff at hotel level is 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.	Set up hotel training academy to assist with upgrading of skills levels. Remuneration policies to be in line with market to ensure retention of key staff. The nomination committee to ensure that appropriate succession plans are in place for key executives.	A hotel training academy is operational and feedback provided quarterly to the social and ethics committee. A HPF long-term share incentive scheme has been finalised. The transition of the Deputy CEO to the CEO position from July 2013 has been executed smoothly.
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 unitholders and creating stability going forward for the B-linked unitholders.	Conversion from PLS to REIT from 2 July 2013. Advisors to be appointed to explore possible solutions to amend the capital structure.

Risk	Risk identification	Risk mitigation	Current status
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.	A major drive to be undertaken to reduce utilities consumption in the form of improved monitoring and installation of energy efficient technology where required.	On-line 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.
Tenant default	Loss of income due to vacancy, recoverability of arrear rentals and letting of vacant properties.	Obtain the necessary deposits and bank guarantees in terms of lease. Monitor tenant financial performance and market conditions.	All deposits and bank guarantees in place. Monthly meetings held to review tenants' financial performance and continuous engagement to identify non-serviceability of rentals. Relationships with major hotel operators are in place to secure alternative tenants for vacant properties.
Information technology and data integrity	Disruption to hotel operations and profitability due to IT systems not being operational. Loss of data could have an impact of ensuring legislative and financial reporting compliance and could create the opportunity for fraud amongst staff particularly at hotels where cash transactions are prevalent.	Ensure that adequate back-up and disaster recovery procedures are in place at hotels and the Fund's head office to ensure that data and systems could be recovered with minimum disruption.	Back-up and disaster recovery procedures implemented at hotels and Fund. These processes are continuously monitored.
Safety of guests and staff at hotels	Possible injury, death or disability of guests or staff members would have a negative impact on the hotel brand and property together with negative publicity.	Suitably qualified security companies are appointed at all hotels. Preventative maintenance programmes are supervised by the Fund's Chief Engineer. Property operational risk surveys are conducted annually and concerns raised addressed. Hotel OHSACT committees are in place at all hotels. Adequate insurance cover is in place to cover public liability claims.	TEMI Risk management appointed and 17 properties surveyed to date. These surveys will be conducted annually. International hotel brands have additional requirements to assess fire, life and 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 annually on 1 July.

Stakeholder and sustainability

Shareholder communication and 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. An investor relations programme has been implemented in the financial year 2013.

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

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 disclosure around stakeholder communication will be further developed. in 2014.

Stakeholder groups	Engagement approach and mechanisms	Key topics and areas of concern
Direct: Fund stakeholders		
Shareholders, bankers, bond holders and financiers	Presentations, annual reports, results announcements, SENS releases, 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

Economic impact

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

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

Stakeholder groups	R'000
Revenue: Total rental income from tenants	356 337
Paid to suppliers	13 091
Total value created	343 246
Less: Value distributed	**343 246**
Net distributions paid to shareholders	194 054
Net finance charges and fees paid to bankers and funders	132 320
Salaries and benefits paid to employees	15 627
CSI to communities and education institutions	1 245

Community and staff investment

Black Economic Empowerment

Hospitality recognises its responsibility to comply with the Department of Trade and Industry's Codes of Good Practice, both from the perspective of good corporate citizenship and to fulfil its customers' procurement requirements. Hospitality is rated a Level 7 BBBEE contributor and aims to achieve at least a Level 6 rating in 2013.

Employee profile

The Fund directly employs a small team of people who are primarily responsible for the strategy, governance and compliance and asset and financial management of the Fund. However, it has created jobs for the more than 2 000 people who are employed by its 27 hotel and leisure properties located throughout South Africa.

Training and development

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

During the financial year under review, Hospitality continued its funding of the Training and Quality Development programme facilitated by Extrabold Hotel Management (Pty) Limited. Various training programmes have been established specific to the development of supervisory staff and middle management. The development programmes were 80% PDI-focused.

Hospitality conducts trainee and internships at its hotels by engaging, via its contracted hotel management companies, with various institutions in South Africa and internationally. A total of 130 trainees, interns and learners completed their practical training at hotels within Hospitality's portfolio during the 2013 financial year.. This programme has been very successful, and the majority of the students have been employed by hotels in the Hospitality portfolio, in positions ranging from food and beverage to housekeeping. In acknowledging the skills shortage in the South African tourism industry, especially the shortage of leadership and managerial skills in the hotel sector, Hospitality will continue its focus on education, development and training during the 2014 financial year.

Hospitality Property Fund Bursary Scheme

A three-year Hospitality Property Fund Bursary Scheme was established in August 2009 by the Fund in association with The University of Johannesburg School of Tourism and Hospitality (UJ). The bursary scheme provides funding to previously disadvantaged South African students to complete a three-year National Diploma in Hospitality Management with UJ. The beneficiaries of these bursaries have a one-year service obligation to Hospitality for each year of study which provides the Fund with well-trained employees for its hotels.

During the 2013 academic year, bursaries were awarded to nine qualifying students at a total cost of R240 000. Third-year bursary students complete their practical training at Hospitality's Holiday Inn Sandton and Crowne Plaza – The Rosebank hotels.

The scheme contract with UJ which came up for renewal in August 2012, was extended for a further three-year period.

Wellness Programme

Focus was placed on the Wellness Programme which was rolled out at Extrabold managed hotels during the financial year. The programme is predominantly PDI-focused and facilitates HIV/AIDS wellness and awareness workshops, education, support and treatment.

Environmental matters

The activities of Hospitality have a low environmental impact, however the Fund recognises its responsibility for the impacts that it has on its surrounding communities and evaluates mechanisms to reduce environment impacts.

- We continue to make progress on our journey to reducing our environmental impacts and to manage our carbon footprint but, at the same time, we recognise that this is a dynamic target and that we will need to continually adapt our approach to achieve these objectives. To this end, Hospitality is committed to integrating leading environmental practices and sustainability principles into its hotel properties, in order to achieve a balance between our economic, social and environmental responsibilities.
- We continue to work on the following initiatives:

Energy consumption

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

Water consumption

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

Waste water recycling

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

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 properties 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 bio-diversity 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 properties, which are driven in line with each hotel operator's policies and initiatives, including:

- 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 is the only ISO 14001 accredited golf estate in Africa. In order to maintain this accreditation, it must comply with international standard of sustainable environmental management and undergo annual environmental audits of its performance.

Energy consumption

At the Fund's properties, 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 properties 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 properties and to benchmark our usage against the industry.

The Fund continues to register properties with Eskom's Demand Side Management Programmes and has implemented various projects such as installing heat pumps and energy-efficient light fitting replacement at the majority of the hotels in its portfolio.

In addition, all public areas and essential lighting was replaced with energy-efficient lamps, comprising more than 36 000 light fittings being replaced throughout the hotel portfolio. A further exercise was undertaken by installing motion sensor lighting in low volume traffic areas such as basements and storage areas.

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 properties to minimise disruption to the businesses by supplying essential services in the event of power outages. All of these machines are on planned maintenance procedures and load testing programmes.

Electricity usage

Average kWh per room night sold

	2-star	3-star	4-star	5-star
2013 financial year	32,38	44,88	40,39	107,50
2012 financial year	33,02	50, 15	51,26	116,02
Year-on-year change 2012 – 2013	(1,9%)	(11,7%)	(21,2%)	(7,3%)

Energy and water consumption are monitored daily and reported monthly, together with a summary of utility bills in a sustainability reporting meeting attended by senior executives and a newly appointed specialist monitoring company, Power Metering Technics (PMT). PMT was appointed in 2012 to improve the existing system and assist the Fund's executive to improve the measures that are in place to further reduce the energy consumed at the properties. Best-practice benchmarks were established and the following actions are continually implemented by the hotel management companies:

Fund initiatives

- Hot-water clarifiers are set to heat water only when the capacity of the newly installed heat pumps has been reached and the demand optimum for hot water peaks. Boiler temperatures are set to optimise levels.
- Systems have been fully insulated to ensure hot water is available at all times and heat loss is minimised.
- Air-conditioning plants are controlled by timers to reduce energy consumption so that unoccupied public spaces are not unnecessarily air-conditioned.
- Energy-saving devices, such as key-card activated switches, have been installed in new and refurbished hotel rooms. These allow all non-essential electrical items when rooms are unoccupied to be shutdown.
- Where possible, the cold air discharged from heat pumps is 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 is encouraged for replacement of all globes.
- Regular maintenance of all electrical equipment ensures that operating efficiencies are maintained.
- Staff training programmes and initiatives include measures on saving power, such as switching off of lights in storage areas and unoccupied bedrooms.
- Power factor correction equipment has been installed and is maintained.
- 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 consumption. 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 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.

Arabella Golf Course is in the process of replacing the existing irrigation system with a state-of-the-art system. The effects hereof will be a reduction in the water usage.

Average litres per room night sold

	2-star	3-star	4-star	5-star
2013 financial year	352	547	441	2 252
2012 financial year	247	521	496	2 264
Year-on-year change 2012 – 2013	29,8%	5,0%	(11%)	(0,5%)

The water consumption of the 2-star property was impacted by an underground water leak at the Bayshore Inn that was repaired in September 2012, and a burst pipe supplying the main boiler. The underground leak began in July 2012 until the point of the leak could be identified and repaired in September 2012. These extraordinary events contributed entirely to the increase in usage.

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 machines.
- Garden irrigation is timed to take place outside of the heat of the day to reduce loss through evaporation.
- 'Water wise' indigenous flora is used in all landscaping and plant replacement projects.
- Programmes are in place for the continual removal of invasive alien plant species.
- Water metering systems have been installed 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 mitigation measures that are being implemented to reduce the effect of harmful substances on the environment include:

- Bio-degradable and environmentally friendly chemicals are used in all kitchen, cleaning and laundry operations.
- Guest supplies (soaps, shampoo, foam baths, conditioners, lotions) are bio-degradable.
- All properties 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 all properties and all diesel generators have 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 availability of suitable service providers to remove these waste products remains challenging. An in-house education programme is in place at a number of the Fund's properties 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 recycled.

Some of the institutions involved at the Fund's properties in aspect of recycling initiatives:

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

Bio-diversity

The Fund monitors the impact of its properties which are located in both protected areas and locations of high bio-diversity value.

Many of the invasive plant species have been removed and proper attention is given to the replacement of indigenous material.

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

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

Corporate social investment

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

While the Fund identifies the initiatives and drives the corporate social investment strategies, once established, they are driven by the individual hotels and quarterly feedback reports are provided to the social and ethics committee.

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

- African Conservation Trust
- Alzheimer's South Africa
- Amy Biehl Foundation
- Angels over Africa
- Bicycles for Humanity
- Botchubelo Poverty Alleviaton Village
- Cansa
- Carte Blanche "Making a Difference"
- Journey of Hope Breast Cancer Awareness
- Make A Wish Foundation

Operational Team – Baneesha Deva, Aneke Kleynhans, William McIntyre and Mario Monica

Hospitality's "builders on duty"

- NSRI
- Reach for a Dream
- SPCA
- Star for Life (HIV/AIDS awareness)
- Witpoortjie Frail Care Senior Centre

Habitat for Humanity

Habitat is a global, not-for-profit development organisation that aims to eradicate poverty housing in the world. It works in partnership with disadvantaged communities, the public and private sectors, civil society, volunteers and others to uplift and positively change those communities. In particular, it is a core mission principle that Habitat supports sustainable and transformational development in those communities in which it works.

During the year, Hospitality made a once-off donation of R85 000 to Habitat for Humanity for the construction of a home in Orange Farm. The construction of the home was also partly undertaken by staff of the Fund, under the supervision of Habitat for Humanity. During an on-site 5-day partnership between Extrabold and Hospitality team members in March 2013, the building project for beneficiary, Ms Alice Mohoko and her family, in Orange Farm was completed. The newly built home provides the Mohoko family the opportunity to build up a sustainable and healthy future.

The Fund's focus, however, continues to be on education and training, the details of which can be found on page 60 under "Stakeholder and sustainability".

Mandela Libraries Project

The Westin Cape Town partnered with NPO Breadline Africa, who manage the Mandela Libraries Project, and Macquarie Bank as joint sponsors, in order to donate a container library to a local Cape Town school at a total cost of R208 000.

The container library was displayed from 1 to 18 July 2012 at the Nelson Mandela Gateway to the Robben Island Ferries in order to create awareness around the Mandela Day celebration and the Mandela Libraries Project in particular.

Completed house of the Mohoko family

The staff of The Westin Cape Town were given the option to select and vote for the school to which the library was donated.

Alpine Primary School in Mitchells Plain was selected as the beneficiary of the container library, which was delivered to the school on 19 July 2013.

Arabella Hotel and Spa Transport Initiative

Growing the businesses of our existing business partners, Hospitality has continued to focus on strengthening existing relationships and assisting in developing those businesses which already provide a service to the Fund and whose development will not only benefit the business and surrounding communities, but also ultimately the Fund and its staff. Hospitality assisted Mrs Victoria McInjana and Mr Nkululeko Lose, who were providing transport to staff from their homes in Botrivier, Hermanus and Kleinmond to Arabella Hotel and Spa who also benefited from a 25% reduction in their transport costs.

Mrs McInjana and Mr Lose receive support from the management team at the hotel on the accounting, administering and general management of their businesses and staff. This initiative will result in both entrepreneurs creating employment opportunities within their respective communities and allow them to grow their existing businesses.

Other initiatives

A number of other enterprise development initiatives have been undertaken at hotel properties. These are 100% focused on previously disadvantaged individuals (PDI) and include:

- A shoe-shine initiative in conjunction with "Let them shine", where the hotel provides the premises and, through its guests, the clientele which the entrepreneur requires for his business.
- The "tailor made" initiative where an unemployed tailor has been provided with a workshop and converts damaged linen into useable linen items.
- Rent-free space for an entrepreneur to sell African arts and crafts and daily necessities required by guests.
- The Fund is currently exploring enterprise development proposals at its other properties.

The Arabella Community Trust (ACT)

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

Westin Cape Town – Library donation to Alpine Primary School in Mitchells Plain

Annual financial statements
CONTENTS

MOUNT GRACE COUNTRY HOUSE AND SPA
Magaliesberg

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 2013, 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. In addition, the directors are responsible for preparing the Directors' Report.

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

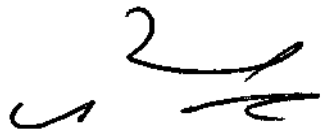
The directors' have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group and separate annual 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 20 August 2013 and signed by:

DG Bowden
Chairman



AS Rogers
Chief executive officer

PREPARER OF THE ANNUAL FINANCIAL STATEMENTS

The group and separate annual financial statements of Hospitality Property Fund Limited as approved by the board of directors on 20 August 2013, were prepared by the Group Financial Manager, Mr R Erasmus CA(SA), under the supervision of the Financial Director, Mr R Asmal.

The group and separate annual financial statements of Hospitality Property Fund Limited as approved by the board of directors on 20 August 2013, have been audited in compliance with section 30 of the Companies Act, 2008.

CERTIFICATE BY THE COMPANY SECRETARY

I hereby certify that for the year ended 30 June 2013, 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

20 August 2013

Finance Team – Kate Vimbelela, Maria Olivier and Riaan Erasmus

REPORT OF THE AUDIT 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 49.

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.

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 and 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 2013 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 re-appointment of the external auditor for the 2014 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 content of the annual financial statements for the 2013 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 and the board.

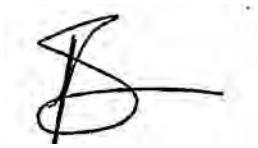
Internal audit

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 has no need for a dedicated, in-house internal audit team, as internal audit functions are fulfilled at hotel level.

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 team and with the expertise and experience of the financial director.

The committee, in addition to its statutory duties, also fulfils other functions assigned to it by the board, which include the governance of risk.



L de Beer
Audit committee chairman

20 August 2013

DIRECTORS' REPORT

The directors have pleasure in submitting their report for the year ended 30 June 2013.

Nature of business

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

The property portfolio consists of interests in 27 properties valued at R4.57 billion.

Group of entities

The "group" comprises the following entities:

- Hospitality Property Fund Limited;
- HPF Properties (Pty) Limited;
- HPF Management (Pty) Limited; and
- Hospitality Property Fund Managers (Pty) Limited.

Review of operations

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

Distributions

The A-linked units distribution for the year amounted to 134,63 (2012: 113,08) cents, an increase of 19,1%, and the B-linked unit distribution was 18.08 (2012: 7,91) cents or 128,6% more than the previous year.

The combined distribution for the year amounted to 152,71 (2012: 120,99) cents, an increase of 26,2% from the previous year.

The rights issue forecast distribution for the B-linked units of 14,10 cents was exceeded by 28,2%.

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 note 12 and note 14 to the annual financial statements.

Acquisition

On 30 April 2013, the Fund successfully concluded the acquisition of the Radisson Blu Gautrain Hotel from Savana Property (Pty) Limited for a total purchase consideration of R443,4 million. The total consideration was funded by equity of R275 million, R150 million secured notes and partly by a R40 million unsecured note issue.

Property valuations

The portfolio was revalued by independent property valuers at R4,57 billion (2012: R3,86 billion) and the net asset value per linked unit (excluding deferred taxation) was R10,95 (2012: R10,15) at year-end. During the year, capital acquisitions at fair value amounted to R451,0 million (2012: R3,2 million), investments in existing hotels amounted to R39,0 million (2012: R72,1 million) and the increase on revaluation was R218,4 million (2012: deficit of R169,0 million).

Borrowings

The average cost of borrowings for the group was 8,56% (2012: 9,74%) and 44,4% of the group's borrowings were subject to fixed interest rates at 30 June 2013. The group's facilities with financial institutions at 30 June 2013, was R1,73 billion (2012: R1,46 billion) with R1,57 billion (2012: R1,36 billion) being utilised at year-end. The group's gearing ratio at 30 June 2013 was 34,4% (2012: 35,2%).

The gearing ratio of the group is the total interest bearing liabilities divided by the total value of investment properties.

Domestic Medium-Term Note (DMTN) Programme

During the 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.

In April 2013, the Fund concluded its debut auction of R150 million secured notes and a private placement of R120 million unsecured notes into the market.

Refer to note 15 for more details on the DMTN Programme.

Debt facility

The total facilities available to the Fund at 30 June 2013 was R1,73 billion with R1,57 billion withdrawn, and details regarding this can be found under note 15 to the annual financial statements. Total facilities expiring at 30 June 2014 amounts to R300 million from ABSA Bank Limited and is classified as current liabilities in the statement of financial position. The Fund is exploring various refinancing options of these facilities.

Directorate

The board of directors comprises:

Independent non-executive chairman

Mr DG Bowden	(Appointed as chairman 30 June 2013)

Executive	Non-executive	
Mr AS Rogers	Mr Y Aminzadeh	(Resigned 1 December 2013)
Mr R Asmal	Mr WJ Midgley	(Resigned 29 March 2013)
	Mr GA Nelson	
	Independent non-executive	
	Mr WC Ross	(Acting chairman from 14 February 2012 to 30 June 2013)
	Mr KH Adbul-Karrim	
	Mrs L de Beer	
	Mr ZN Kubukeli	
	Mrs MB Madumise	(Resigned 30 April 2013)
	Mr SA Halliday	(Appointed 30 June 2013)
	Mrs A Soni	(Appointed 30 June 2013)
	Miss Z Ntwasa	(Appointed 8 July 2013)

Mr GA Nelson's role changed from being an executive director to a non-executive director on 30 June 2013.

In terms of the company's Memorandum of Incorporation, Mr SA Halliday, Mrs A Soni and Ms Z Ntwasa offer themselves for election at the AGM.

Directors' interests

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

A-linked units (number of units)

	2013				2012			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
R Asmal	3 400	–	–	3 400	–	–	–	–
WJ Midgley **	–	–	–	–	–	20 000	7 786	27 786
GA Nelson	–	–	281 544	281 544	–	–	281 544	281 544
	3 400	–	281 544	284 944	–	20 000	289 330	309 330

B-linked units (number of units)

	2013				2012			
	Direct beneficial	Indirect beneficial	Held by associates	Total	Direct beneficial	Indirect beneficial	Held by associates	Total
Y Aminzadeh *	–	–	–	–	–	–	861 793	861 793
R Asmal	35 000	–	–	35 000	35 000	–	–	35 000
WJ Midgley **	–	–	–	–	–	40 000	13 924	53 924
GA Nelson	–	–	825 666	825 666	–	–	825 666	825 666
	35 000	–	825 666	860 666	35 000	40 000	1 701 383	1 776 383

* *Resigned 1 December 2012. Shareholding remained the same.*

** *Resigned 29 March 2013. Between 17 and 21 May 2013, Mr Midgley disposed of his A and B-linked units.*

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

Directors' remuneration

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

Distribution to unitholders

Distribution to unitholders is disclosed in note 22 to the annual 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 this report on page 44.

Subsidiary companies

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

Associate companies

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

Going concern

The directors have made an assessment of the company's 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 matters 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 company successfully converted to a Real Estate Investment Trust ('REIT') from 1 July 2013 and has been granted extensions by the JSE Limited to amend the Memorandum of Incorporation by 31 December 2013.

Company Secretary

The Company Secretary is HPF Management (Pty) Limited (Registration number 2009/021472/07)

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

Business address: The Zone II, Lofts East Wing, 2nd Floor, corner Oxford Road and Tyrwhitt Avenue, Rosebank, 2196

Postal address: PO Box 522195, Saxonwold, 2132

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of Hospitality Property Fund Limited

We have audited the group financial statements and separate financial statements of Hospitality Property Fund Limited, which comprise the statements of financial position at 30 June 2013, 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 76 to 118 .

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 2013, 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 2013, we have read the Directors' Report, the Audit 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

KPMG Crescent
85 Empire Road
Parktown, 2193
Johannesburg

13 September 2013

STATEMENTS OF FINANCIAL POSITION

at 30 June 2013

	Notes	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 R'000
ASSETS					
Non-current assets		**4 324 662**	3 758 599	**3 160 603**	2 582 016
Investment properties	2	**4 246 848**	3 639 508	**–**	–
Straight-line rent income accrual	3	**4 152**	4 447	**–**	–
Investment properties and related accrual		**4 251 000**	3 643 955	**–**	–
Furniture, fittings and equipment	4	**899**	482	**–**	–
Goodwill	5	**72 600**	114 000	**–**	–
Investment in subsidiary	6	**–**	–	**3 160 603**	2 582 016
Investment in associates	7	**163**	162	**–**	–
Current assets		**448 263**	275 678	**700**	410
Non-current assets held for sale	11	**318 900**	217 900	**–**	–
Properties held for trading	9	**19 708**	18 980	**–**	–
Trade and other receivables	8	**42 260**	23 356	**213**	210
Cash and cash equivalents	10	**67 395**	15 442	**487**	200
Total assets		**4 772 925**	4 034 277	**3 161 303**	2 582 426
EQUITY AND LIABILITIES					
Equity		**690 752**	370 883	**470 189**	392 050
Share capital and share premium	12	**476 199**	392 127	**476 199**	392 127
Retained earnings		**73 884**	115 278	**(6 010)**	(77)
Fair value reserve	13	**140 669**	(136 522)	**–**	–
Non-current liabilities		**3 708 134**	3 563 628	**2 584 441**	2 124 285
Debentures	14	**2 314 441**	2 124 285	**2 314 441**	2 124 285
Interest bearing liabilities	15	**1 372 627**	1 359 527	**270 000**	–
Derivative liability	29.1	**21 066**	43 086	**–**	–
Deferred taxation	16	**–**	36 730	**–**	–
Current liabilities		**374 039**	99 766	**106 673**	66 091
Trade and other payables	17	**67 151**	37 631	**938**	4 040
Short-term portion of interest bearing liabilities	15	**200 000**	–	**–**	–
Taxation	21	**1 153**	84	**–**	–
Debenture interest payable	24	**105 735**	62 051	**105 735**	62 051
Total equity and liabilities		**4 772 925**	4 034 277	**3 161 303**	2 582 426
A. NET ASSET VALUE PER LINKED UNIT (RAND)					
A-linked unit		**10.95**	10.00	**10.15**	10.08
B-linked unit		**10.95**	10.00	**10.15**	10.08
B. NET ASSET VALUE PER LINKED UNIT (RAND)					
A-linked unit		**10.95**	10.15	**10.15**	10.08
B-linked unit		**10.95**	10.15	**10.15**	10.08

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

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

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

	Notes	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 R'000
Revenue		**356 042**	315 956	**–**	–
Rental income – contractual		**356 337**	326 681	**–**	–
– straight-line accrual	3	**(295)**	(10 725)	**–**	–
Operating income	19	**–**	–	**202 353**	115 150
Expenditure		**(29 878)**	(40 289)	**(4 644)**	(5 236)
Operating expenses		**(29 878)**	(40 289)	**(4 644)**	(5 236)
Operating profit	18	**326 164**	275 667	**197 709**	109 914
Transaction costs on business combinations	30	**(1 975)**	–	**–**	–
Profit on properties held for trading		**948**	–	**–**	–
Net finance (cost)/income		**(132 320)**	(176 705)	**(3 953)**	7
Finance income	19	**1 819**	1 214	**94**	7
Finance cost	19	**(134 139)**	(177 919)	**(4 047)**	–
Profit before debenture interest, goodwill, fair value adjustments and taxation		**192 817**	98 962	**193 756**	109 921
Recoupment of debenture interest	20	**6 130**	15 469	**6 130**	15 469
Debenture interest		**(200 184)**	(125 293)	**(200 184)**	(125 293)
(Loss)/profit before fair value adjustments, goodwill and taxation		**(1 237)**	(10 862)	**(298)**	97
Gain on bargain purchase	30	**7 615**	–	**–**	–
Fair value adjustments		**199 356**	(218 776)	**–**	–
Investment properties, before straight-lining adjustment		**218 441**	(169 132)	**–**	–
Straight-line rental income accrual	3	**295**	10 725	**–**	–
Total fair value of investment properties		**218 736**	(158 407)	**–**	–
Goodwill impairment	5	**(41 400)**	(38 822)	**–**	–
Interest-rate swaps		**22 020**	(21 547)	**–**	–
Profit/(loss) before taxation		**205 734**	(229 638)	**(298)**	97
Equity accounted profit from associate after tax	7	**126**	222	**–**	–
Debenture discount amortisation	19	**(5 635)**	(174)	**(5 635)**	(174)
Taxation	21	**35 572**	14 053	**–**	–
Total profit/(loss) and total comprehensive income for the year		**235 797**	(215 537)	**(5 933)**	(77)

STATEMENTS OF COMPREHENSIVE INCOME
(continued)
for the year ended 30 June 2013

	GROUP		COMPANY	
	2013	2012	**2013**	2012
	Cents	Cents	**Cents**	Cents
Distribution per linked unit				
A-linked units				
– interim	**66.51**	63.34	**66.51**	63.34
– final	**68.12**	49.74	**68.12**	49.74
Total	**134.63**	113.08	**134.63**	113.08
B-linked units				
– interim	**9.19**	7.91	**9.19**	7.91
– final	**8.89**	–	**8.89**	–
Total	**18.08**	7.91	**18.08**	7.91
Earnings/(loss) and diluted earnings/(loss) per share				
A units	**168.63**	(50.11)	**–**	–
B units	**168.63**	(50.11)	**–**	–
Total	**337.26**	(100.22)	**–**	–

STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2013

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
GROUP					
Balance at 30 June 2011	18	342 844	123 718	70 575	537 155
Loss/total comprehensive income for the year	–	–	(215 537)	–	(215 537)
Transactions with owners, recorded directly in equity	7	49 258	207 097	(207 097)	49 265
Issue of shares	7	59 407	–	–	59 414
Share issue expenses, net of tax	–	(10 149)	–	–	(10 149)
Transfer from fair value reserve – investment properties (net of deferred tax)	–	–	154 995	(154 995)	–
Transfer to fair value reserve – contingent consideration	–	–	30 555	(30 555)	–
Transfer to fair value reserve – interest rate swaps	–	–	21 547	(21 547)	–
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 from 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
COMPANY					
Balance at 30 June 2011	18	342 844	–	–	342 862
Loss/total comprehensive income for the year	–	–	(77)	–	(77)
Transactions with owners, recorded directly in equity	7	49 258	–	–	49 265
Issue of shares	7	59 407	–	–	59 414
Share issue costs, net of tax	–	(10 149)	–	–	(10 149)
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

STATEMENTS OF CASH FLOWS

for the year ended 30 June 2013

	Notes	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 R'000
Cash flows from operating activities					
Cash generated from operations	23	**336 430**	275 121	**194 604**	112 928
Finance income received	19	**1 819**	1 214	**94**	7
Finance costs paid	19	**(134 139)**	(177 919)	**(4 047)**	–
Taxation	21	**(89)**	–	**–**	–
Distribution to unitholders	24	**(156 500)**	(136 235)	**(156 500)**	(136 235)
Net cash inflow/(outflow) from operating activities		**47 521**	(37 819)	**34 151**	(23 300)
Cash flows from investing activities					
Acquisition and development of investment properties	25	**(481 989)**	(75 257)	**–**	–
Acquisition of properties held for trading		**(728)**	(2 040)	**–**	–
Acquisition of furniture, fittings and equipment		**(799)**	(35)	**–**	–
Dividends received from associates	7	**125**	–	**–**	–
Loan repaid associate – Vexicure	7	**–**	60	**–**	–
Loan advanced to subsidiary		**–**	–	**(578 587)**	(496 804)
Net cash outflow from investing activities		**(483 391)**	(77 272)	**(578 587)**	(496 804)
Cash flows from financing activities					
Proceeds from the issue of linked units		**274 974**	530 280	**274 974**	530 280
Share issue expenses paid		**(251)**	(10 149)	**(251)**	(10 149)
Interest bearing liabilities raised/(repaid)		**213 100**	(380 815)	**270 000**	–
Net cash inflow from financing activities		**487 823**	139 316	**544 723**	520 131
Net increase in cash and cash equivalents		**51 953**	24 225	**287**	27
Cash and cash equivalents at beginning of the year		**15 442**	(8 783)	**200**	173
Cash and cash equivalents at end of the year		**67 395**	15 442	**487**	200

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2013

1. Accounting policies

Hospitality Property Fund Limited ("the company") is a company domiciled in South Africa. The group and separate annual financial statements for the year ended 30 June 2013 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 20 August 2013.

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

1.1 Statement of compliance

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

1.2 Basis of preparation

The annual financial statements are presented in Rand, which is the group's functional currency, 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.

The accounting policies set out below have been applied consistently by all group entities and are consistent with those in the prior years.

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

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 and note 29.

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

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

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 company. 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)

Joint ventures are those entities in which the group has joint control over the financial and operating policies. Associates are those entities in which the group has significant influence over the financial and operating policies.

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 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised gains or 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 and equipment.

Subsequent expenditure is capitalised when it is probable that future economic benefits from the use of the investment property will flow to the 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.

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

On disposal of investment properties, the difference between the net disposal proceeds and the fair value at the date of the last valuation is charged or credited to the statement of comprehensive income. Fair value adjustment gains accounted for in the fair value reserve relating to such disposals are transferred to retained earnings in the statement of changes in equity and subsequently transferred to the fair value reserve for realised capital profits. Similarly, fair value 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 of 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 IAS 40 at fair value.

1. Accounting policies (continued)

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 or loss. Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, loan to subsidiary, other financial liabilities and derivative financial instruments.

Financial instruments include the following instruments per category:

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

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

Derivative financial liabilities

Loans and receivables

Cash and cash equivalents

Trade and other receivables

Loan to subsidiary

Other financial liabilities
Trade and other payables
Interest bearing borrowings
Debentures

Subsequent to initial recognition, financial instruments are measured on the bases set out below:

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 derecognises 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 derecognised 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.

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. Accounting policies (continued)

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

1.11.2 Finance costs

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

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

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

1.12 Taxation

Income tax 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. The CGT rate currently applicable under REIT legislation is zero 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 (currently 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 realization 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 leases adjustments, nor does it include any fair value adjustments. Inter-segments pricing is determined on an arm's length basis.

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

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

1. 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 annual leave represent the amount which the group has a present obligation to pay as a result of the employees' services provided to the reporting date.

1.14.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which a 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. Pre-paid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

1.15 Intangible assets

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 Furniture, fittings and equipment

(i) Recognition and measurement

Items of furniture, fittings 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 furniture, fittings and equipment have different useful lives, they are accounted for as separate items (major components) of furniture, fittings and equipment.

Gains or losses on disposal of an item of furniture, fittings and equipment are determined by comparing the proceeds from disposal with the carrying amount of furniture, fittings 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 furniture, fittings 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 furniture, fittings 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.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of furniture, fittings 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:

	2013	2012
Furniture and equipment	**6 years**	6 years
Fixtures	**3 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 to which the group is currently entitled 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 first time when made mandatory by the IASB. 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.

1. Accounting policies (continued)

1.19 New and amended IFRS standards not yet effective (continued)

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

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

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

Annual Improvements Projects of the IASB

Each year the IASB makes amendments to certain Standards and Interpretations in issue. Some of the amendments made during the 2012 and 2013 annual improvements projects are not yet effective. Management have considered all the improvements and have concluded that they will have either no or minimal impact, with the exception of the following:

IFRS 10 Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements introduces a new approach in determining as to whether an investee should be consolidated or not. Under IFRS 10, an investee is controlled and should be consolidated if the investor is exposed or has the right to variable returns from its investment in the investee, and it has the ability to affect those returns through its power over the investee. IFRS 10 is only effective for periods beginning on or after 1 January 2013 and will thus only be applicable for the financial year starting 1 July 2013. The forthcoming statement has already been assessed in the current financial year and it has been determined that it will not have an effect on the group at present.

IFRS 11 Joint Arrangements

IFRS 11 Joint Arrangements overhauls the method of classifying and accounting for joint ventures, now known as joint arrangements. Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the major factor in determining the type of joint arrangement and therefore subsequent accounting. The group's interest in a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the group's interests in those assets and liabilities. The group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity accounted. As the group has no joint operations, it is not expected to have an impact. IFRS 11 is only effective for periods beginning on or after 1 January 2013 and will thus only be applicable for the financial year starting 1 July 2013. The forthcoming statement has been assessed in the current financial year and it has been determined that it will have no effect on the group currently.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 introduces a single standard for disclosure requirements in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

Structured entities are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The disclosure requirements encompass risk exposures for the sponsor of such an entity, even if it no longer has any contractual involvement.

IFRS 12 expands the disclosure requirements for these entities with the aim to enable the users to evaluate:

- the nature of, and risks associated with an entity's interest in other entities;
- the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 12 is only effective for periods beginning on or after 1 January 2013 and will therefore only be applicable for the financial year starting 1 July 2013.

The impact on the annual financial statements for the group and company has not yet been determined.

IFRS 13 Fair Value Measurement

IFRS 13 introduces a single source of guidance for fair value measurements and:

- defines fair value;
- establishes a framework for fair value measurements;
- sets out disclosure requirements for fair value measurements.

IFRS 13 defines 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, i.e. an exit price.

The fair value hierarchy disclosures (introduced in IFRS 7 for financial instruments) are extended to non-financial assets or liabilities measured at fair value. The disclosure is also required for non-recurring fair value measurements.

IFRS 13 is only effective for periods beginning on or after 1 January 2013 and will therefore only be applicable for the financial year starting 1 July 2013.

The impact on the annual financial statements for the group and company has not yet been determined.

	GROUP		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
2. Investment properties				
Balance at beginning of the year	**3 639 508**	3 940 558	**–**	–
Additions – acquisitions at fair value	**451 000**	3 183	**–**	–
Additions at cost – capitalised expenditure	**31 334**	68 563	**–**	–
Non-current assets held for sale (transfer)	**(80 000)**	(231 930)	**–**	–
Fair value adjustment	**204 711**	(151 591)	**–**	–
Property at fair value	**4 246 553**	3 628 783	**–**	–
Adjust: Straight-line rental income accrual	**295**	10 725	**–**	–
Balance at end of the year	**4 246 848**	3 639 508	**–**	–

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

Investment properties were independently valued at 30 June 2013. The valuation of the portfolio was performed by Mr B van Vuuren, Professional Associate Valuer, from JHI (Gensec Property Services Limited).

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

The discount and capitalisation rates used by the independent valuer in the valuation of investment properties are affected by market conditions. The discount and capitalisation rates applied in the valuation of the individual properties are disclosed on pages14 and 15 in the property portfolio.

Finance costs incurred in the redevelopment of the properties were capitalised based on the funding costs incurred on the development loans from banks. No finance costs were capitalised during the current financial year.

Details of construction and redevelopments are contained on page 39.

	GROUP		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
3. Straight-line rent income accrual				
Balance at beginning of the year	**4 447**	15 172	**–**	–
Straight-line rental reversed during the year	**(295)**	(10 725)	**–**	–
Balance at end of the year	**4 152**	4 447	**–**	–

	GROUP		COMPANY	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
4. Furniture, fittings and equipment				
Cost				
Balance at beginning of the year	**896**	988	**–**	–
Acquisition during the year	**886**	35	**–**	–
Disposals	**(200)**	(127)	**–**	–
Balance at end of the year	**1 582**	896	**–**	–
Depreciation and impairment losses				
Balance at beginning of the year	**414**	240	**–**	–
Depreciation for the year	**382**	216	**–**	–
Disposals	**(113)**	(42)	**–**	–
Balance at end of the year	**683**	414	**–**	–
Carrying amount				
Balance at beginning of the year	**482**	748	**–**	–
Balance at end of the year	**899**	482	**–**	–
5. Goodwill				
Opening balance	**114 000**	152 822	**–**	–
Impairment loss	**(41 400)**	(38 822)	**–**	–
Carrying value at year-end	**72 600**	114 000	**–**	–

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 R41,4 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 except for the changes as disclosed below:
- an annual management fee of 0,5% (reduced during the year from 1% to bring it in line with the market) of enterprise value which comprise a combination of interest bearing debt and market capitalisation;
- 1% acquisition and development fee (reduced from 2% to bring it in line with the market);

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

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

5. Goodwill (continued)

(iv) the value in use was calculated based on an amount equivalent to the estimated future cash flow of HPF Management over five years from 2014 to 2018. 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 8,81% (2012: 9,34%).

The management fee has been reduced from 1% to 0,5% of the enterprise value to bring it in line with the industry, which resulted in a significant decrease in the revenue of HPF Management. Due to this change, the goodwill value attributed to HPF Management was impaired.

	COMPANY	
	2013 R'000	2012 R'000
6. Investment in subsidiary		
Shares at cost (R120)	–	–
Loan to HPF Properties (Pty) Limited	**3 160 603**	2 582 016
	3 160 603	2 582 016

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

An amount of R202 million (2012 : R115 million) has been paid as interest to the holding company during this year.

	GROUP		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
7. Investment in associates				
Opening balance	**162**	–	**–**	–
Cost of investment (R15)	**–**	–	**–**	–
Profit attributable to HPF	**126**	222	**–**	–
Impairment of investment to net asset value	**–**	(60)	**–**	–
Dividends received	**(125)**	–	**–**	–
Carrying value of investment	**163**	162	**–**	–

Vexicure (Pty) Limited

Vexicure (Pty) Limited ("Vexicure") was incorporated on 17 September 2009 and was purchased by HPF Properties (Pty) Limited ('HPF Properties') 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. 95% of the shareholding in Vexicure was sold to Pan-African Capital Holdings (Pty) Limited on 13 May 2011. Subsequently, Pan-African Capital Holdings (Pty) Limited has sold 15% of Vexicure to the WCT Hotel Share Incentive Trust which was incorporated in the 2012 financial year.

	2013 R'000	2012 R'000
7. Investment in associates (continued)		
Summary of Vexicure's Statement of Financial Position which represents 100%		
ASSETS		
Current assets	**41 945**	31 923
Total assets	**41 945**	31 923
EQUITIES AND LIABILITIES		
Capital and reserves	**4 179**	2 763
Current liabilities	**37 766**	29 160
Total equities and liabilities	**41 945**	31 923
Summary of Vexicure's Statement of Comprehensive Income		
Revenue	**238 147**	227 558
Gross profit	**153 509**	213 501
Total operating expenditure	**(79 186)**	(140 651)
Rental to HPF Properties	**(70 077)**	(67 338)
Taxation	**(1 730)**	(1 074)
Total comprehensive profit for the period	**2 516**	4 438
Profit attributable to the HPF group	**126**	222

7. Investment in associates (continued)

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 for R100, with 85% being subsequently sold to Khomelela Investments (Pty) Limited for R85.

Ash Brook is the tenant in the Radisson Blu Gautrain Hotel and leases the property from HPF Properties.

Summary of Ash Brook's Statement of Financial Position which represents 100%	2013 R'000
ASSETS	
Current assets	26 770
Total assets	26 770
EQUITIES AND LIABILITIES	
Capital and reserves	(597)
Current liabilities	27 367
Total equities and liabilities	26 770
Summary of Ash Brook's Statement of Comprehensive Income (May – June 2013)	
Revenue	17 163
Gross profit	15 786
Total operating expenditure	(11 602)
Rental to HPF Properties	(4 122)
Taxation	(169)
Total comprehensive loss for the period	(107)
Loss attributable to the HPF group	(16)

	GROUP		COMPANY	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
8. Trade and other receivables				
Trade receivables	41 875	22 774	–	–
Prepayments	385	582	213	210
Trade and other receivables	42 260	23 356	213	210
Financial assets	41 875	22 774	–	–
Non-financial assets	385	582	213	210
9. Properties held for trading				
Properties acquired and held for trading	19 708	18 980	–	–

Properties held for trading comprise land held for sale 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	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
10. Cash and cash equivalents				
Comprises bank balances of current and call accounts	**67 395**	15 442	**487**	200

The Fund has an unutilised facility of R44 million with Nedbank and R100 million with ABSA.

	GROUP				
	Valuation at 30 June 2012 R'000	Transfer R'000	Capital expenditure R'000	Fair value adjustment R'000	**Valuation at 30 June 2013 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	35 000	–	137	5 863	**41 000**
Protea Hotel – Hazyview	40 000	–	57	(1 057)	**39 000**
Protea Hotel – The Richards	67 000	–	2 330	12 670	**82 000**
The Bayshore Inn	30 000	–	171	(3 171)	**27 000**
Protea Hotel – Imperial	24 000	–	72	4 928	**29 000**
Protea Hotel – Hluhluwe & Safaris	21 900	–	3 901	(3 901)	**21 900**
Kopanong Hotel and Conference Centre	–	80 000	602	(1 602)	**79 000**
	217 900	80 000	7 270	13 730	**318 900**

The Fund identified the above properties for disposal and is actively marketing these properties for sale.

	GROUP		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 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 – 137 237 530 (2012 : 124 761 391) ordinary shares of R0,0001 each	**13.7**	12.5	**13.7**	12.5
B shares – 137 237 530 (2012 :124 761 391) ordinary shares of R0,0001 each	**13.7**	12.5	**13.7**	12.5
	27.4	25.0	**27.4**	25.0

	GROUP		COMPANY	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
12. Share capital and share premium (continued)				
Reconciliation of the number of shares in issue				
Opening balance				
A shares	124 761	88 761	124 761	88 761
B shares	124 761	88 761	124 761	88 761
	249 522	177 522	249 522	177 522
Issued during the year				
A shares – specific issue	12 476	36 000	12 476	36 000
B shares – specific issue	12 476	36 000	12 476	36 000
	24 952	72 000	24 952	72 000
Closing 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
Each share is linked to a debenture, which together form a linked unit.				
Ten percent 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.				
12 476 139 A and B-linked units were issued to acquire the Radisson Blu Gautrain Hotel property. A-linked units were issued at R16,65 per unit and B-linked units were issued at R5,39 per unit.				
Share premium				
Balance at beginning of the year	392 102	342 844	392 102	342 844
Premium on share issue	84 321	59 407	84 321	59 407
Share issue expenses	(251)	(10 149)	(251)	(10 149)
Balance at end of the year	476 172	392 102	476 172	392 102
Share capital and share premium	476 199	392 127	476 199	392 127
13. Fair value reserve				
Fair valuation of investment properties (net of deferred tax)	275 478	20 307	–	–
Fair valuation of interest rate swap	(134 809)	(156 829)	–	–
	140 669	(136 522)	–	–

The non-distributable reserve encompasses all adjustments to the fair values of investment properties and financial instruments.

	GROUP		COMPANY	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
14. Debentures				
Issued and maturity value	**2 314 441**	2 124 285	**2 314 441**	2 124 285
A linked unit – 137 237 530 (2012: 124 761 391) debentures at R9.40 each	**1 290 033**	1 172 757	**1 290 033**	1 172 757
B linked unit – 137 237 530 (2012: 124 761 391) debentures at R9.40 each	**1 290 033**	1 172 757	**1 290 033**	1 172 757
Balance of unamortised debenture discount on B linked units	**(265 625)**	(221 229)	**(265 625)**	(221 229)

Reconciliation	GROUP AND COMPANY			
	2013		2012	
	A units	**B units**	A units	B units
Opening balance	**1 172 757**	**951 528**	834 357	834 357
Debentures issued: 12 476 139 at R9.40 (2012: R9.40) and R5.39 (2012: R3,25), respectively	**117 276**	**67 245**	338 400	116 997
Debenture discount amortisation	**–**	**5 635**	–	174
	1 290 033	**1 024 408**	1 172 757	951 528
Balance of unamortised debenture discount on B linked units	**–**	**265 625**	–	221 229
Closing balance	**1 290 033**	**1 290 033**	1 172 757	1 172 757

On 2 May 2013, the group issued 12 476 139 linked units to acquire the Radisson Blu Gautrain Hotel. The A-linked units were issued at a price of R16,65 and the B linked units were issued at a price of R5,39. 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 R5,6 million (2012: R174 000). 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 not be 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 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 unitholders or their duly authorised agents at the registered office of the company.

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

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

		GROUP		COMPANY	
		2013 R'000	2012 R'000	2013 R'000	2012 R'000
15. Interest bearing liabilities					
Non-current	Interest rate				
ABSA Bank Limited					
– Loan A – expiry: June 2014	JIBAR+2.05%		200 000	–	–
– Loan B – expiry: June 2015	JIBAR+2.47%	150 000	150 000	–	–
– Loan C – expiry: June 2016	JIBAR+2.84%	100 000	100 000	–	–
– Loan D – revolving loan expiry: June 2014	JIBAR+2.05%		56 900	–	–
		250 000	506 900	–	–
Nedbank Limited					
– Loan 1 – expiry: July 2015	JIBAR+2.90%	176 300	176 300	–	–
– Loan 2 – expiry: May 2016	JIBAR+2.90%	346 077	346 077	–	–
– Loan 3 – expiry: May 2016	JIBAR+2.90%	30 250	30 250	–	–
– Loan 4 – expiry: June 2015	JIBAR+2.70%	150 000	150 000	–	–
– Loan 5 – expiry: June 2016	JIBAR+2.84%	150 000	150 000	–	–
		852 627	852 627	–	–
Domestic Medium-Term Note Programme					
– Secured note HPF01: expiry April 2016	JIBAR+1.82%	150 000	–	150 000	–
– Unsecured note HPF02: expiry April 2015	JIBAR+2.40%	40 000	–	40 000	–
– Unsecured note HPF03: expiry April 2016	JIBAR+2.70%	80 000	–	80 000	–
		270 000	–	270 000	–
		1 372 627	1 359 527	270 000	–
Current					
ABSA Bank Limited					
– Loan A – expiry: June 2014	JIBAR+2.05%	200 000		–	–
– Loan D – Revolving loan – expiry: June 2014	JIBAR+2.05%	–		–	–
		200 000	–	–	–
Total interest bearing liabilities		1 572 627	1 359 527	270 000	–

The ABSA Loan A of R200 million and the unutilised Loan D (revolving facility) of R100 million expire in June 2014, and have been classified as current liabilities. The ABSA loans, together with Loans 4 and 5 from Nedbank, as well as the Secured note HPF01, are secured in terms of a mortgage bond over investment properties with a market value of R3,18 billion and a cession of leases and rentals in respect of the bonded properties. In terms of the facilities that expire at the end of the 2014 financial year, the Fund is investigating all the refinancing opportunities that are available to the group.

The Nedbank loans 1, 2 and 3 amounting to R552 million expire as noted above, and are secured in terms of a first mortgage bond over investment properties, valued at R1.38 billion and a cession of leases and rentals in respect of bonded parties.

In terms of its articles of association, the borrowing powers of the company, excluding the debentures, are limited to 65% of the valuation of the group's property portfolio. The current limit of the borrowing powers in terms of the articles of association amounts to R2,97 billion, of which R1,57 billion has been utilised.

DMTN Programme

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

15. Interest bearing liabilities (continued)

In April 2013, the Fund concluded its debut auction of R150 million secured notes and R120 million unsecured notes into the market.

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

Loan to value ("LTV")

The required LTV at 30 June 2013, is required to be 40% and lower.

At 30 June 2013, the group LTV was 34%, and the Hospitality Guarantee SPV (shared security between ABSA, Nedbank and secured notes) was 32%.

Loan to value including treasury transaction exposure

The required LTV at 30 June 2013, is required to be 50% and lower, but for the subsequent periods, the LTV reduces to 45% and lower.

At 30 June 2013, the group LTV was 35%, and the Hospitality Guarantee SPV (shared security between ABSA, Nedbank and secured notes) was 33%.

Interest cover ratio ("ICR")

The ICR requirement for the year ended 30 June 2013 is a minimum of 1.75 times. For the subsequent periods, the ICR increases to a minimum of 2 times.

For the year ended 30 June 2013 the group ICR cover was 2.47 times, and the Hospitality Guarantee SPV (shared security between ABSA, Nedbank and the secured notes) was 2.54 times.

	GROUP		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
16. Deferred taxation				
Balance at beginning of the year	**36 730**	50 867	**–**	–
Movement in profit and loss	**(36 730)**	(14 137)	**–**	–
– Change in CGT rate from 14,0% to 18,6%	**–**	17 321	**–**	–
– Reversal of CGT due to REIT status	**(36 730)**	–	**–**	–
– Fair value adjustment – investment properties	**–**	(31 458)	**–**	–
– REIT assets and liabilities	**–**	–	**–**	–
Balance at end of the year	**–**	36 730	**–**	–

With effect of 1 July 2013, the company and controlled property subsidiaries converted to a 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 exempt 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%. As HPF has not currently decided to pay out capital profits as a dividends, income tax could arise on recoupment when investment properties are sold. This income tax is shielded by an accumulated loss.

Temporary differences arise on:	2013 Deferred tax R'000
REIT assets and liabilities	
– Recoupments – deferred tax liability	192 396
– Accumulated losses – deferred tax asset	(192 396)
	–

REIT legislation is currently being revised to clarify the legislation where difficulties have been noticed in practice. The recognition of the deferred tax asset presumes that the accumulated loss will still be available to shield any recoupments which may arise in future periods.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

	GROUP		COMPANY	
	2013 R'000	2012 R'000	2013 R'000	2012 R'000
17. Trade and other payables				
Trade payables	61 025	35 180	938	4 040
Tenant deposits	3 958	1 883	–	–
VAT payable	2 168	568	–	–
	67 151	37 631	938	4 040
Financial liabilities	64 983	37 063	938	4 040
Non-financial liabilities	2 168	568	–	–
18. Operating profit				
Operating profit is stated after charging the following:	1 033	1 090	121	101
Auditor's remuneration – audit related	937	1 009	121	101
– non-audit related	96	81	–	–
Bad debts	48	3 890	–	–
Non-executive directors' emoluments (refer note 28.3)	1 532	1 544	1 532	1 544
Debt raising fee amortisation	3 616	9 135	–	–
Defined contribution plan expense	319	327	–	–
Executive directors' and employee remuneration	15 308	10 477	–	–
Management fee paid	194	226	1 624	1 844
Property and other expenses were incurred to generate rental income.				
19. Net finance income/costs				
Finance income:				
Interest accrued	1 819	1 214	94	7
Interest received from subsidiaries	–	–	203 171	115 150
	1 819	1 214	203 265	115 157
Finance costs:				
Interest bearing liabilities	134 139	177 919	4 047	–
Debenture discount amortisation (refer note 14)	5 635	174	5 635	174

	GROUP		COMPANY	
	2013	2012	**2013**	2012
	R'000	R'000	**R'000**	R'000
20. Recoupment of debenture interest				
Recoupment of debenture interest	**6 130**	15 469	**6 130**	15 469
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.				
21. Taxation				
Current tax – subsidiary	**1 158**	84	**–**	–
Deferred taxation expense	**(36 730)**	(14 137)	**–**	–
	(35 572)	(14 053)	**–**	–
Deferred taxation expense comprise of the following:				
– Change in CGT rate from 14.0% to 18.6%	**–**	17 321	**–**	–
– Reversal of CGT due to REIT status	**(36 730)**	–	**–**	–
– Fair value adjustment – investment properties	**–**	(31 459)	**–**	–
	(36 730)	(14 138)	**–**	–
Reconciliation of taxation rate:				
Current taxation rate	**28,0%**	28,0%	**–**	–
Fair valuation of investment property	**(29,7%)**	(6,9%)	**–**	–
Fair valuation of swaps	**(3,0%)**	(2,6%)	**–**	–
Gain on bargain purchase price	**(1,0%)**	–	**–**	–
Transaction costs	**0,3%**	–	**–**	–
Impairment of goodwill	**5,6%**	(4,7%)	**–**	–
Change in tax rate	**(17,5%)**	(7,5%)	**–**	–
Effective taxation rate	**(17,3%)**	6,3%	**–**	–

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 R1.2 million is payable by HPF Management (Pty) Limited, a subsidiary in the group, due to the non-deductibility of leave pay and bonus provisions.

	GROUP 2013 Gross R'000	GROUP 2013 Net of tax R'000	GROUP 2012 Gross R'000	GROUP 2012 Net of tax R'000
22. Earnings and distributions per linked unit				
Total profit/(loss) and total comprehensive income for the year	235 797	235 797	(215 537)	(215 537)
Adjustments: Debenture interest	200 184	200 184	125 293	125 293
Earnings (linked units)	435 981	435 981	(90 244)	(90 244)
Adjustments:				
Gain on bargain purchase	(7 615)	(7 615)	–	–
Fair value – investment properties revaluation	(218 441)	(255 172)	169 132	154 995
Fair value – straight-line rental income	(295)	(295)	(10 725)	(10 725)
Goodwill impairment	41 400	41 400	38 822	38 822
Headline earnings (linked units)	251 030	214 299	106 985	92 848
Fair value – interest rate swaps	(22 020)	(22 020)	21 547	21 547
Transaction costs on business combinations	1 975	1 975	–	–
Straight-line rental income	295	295	10 725	10 725
Debenture discount amortisation	5 635	5 635	174	174
Distributable earnings	236 915	200 184	139 431	125 294

	2013 A units	2013 B units	2013 Total	2012 A units	2012 B units	2012 Total
Number of units (note 12 and note14)	137 237 530	137 237 530	274 475 060	124 761 391	124 761 391	249 522 782
Weighted average number of units	129 273 310	129 273 310	258 546 620	90 040 080	90 040 080	180 080 160
Group						
Distribution per linked unit (cents)	134,63	18,08	152,71	113,08	7,91	120,99
Profit/(loss) per linked unit (cents)	168,63	168,63	337,26	(50,11)	(50,11)	(100,22)
Headline earnings per linked unit (cents)	82,89	82,89	165,78	51,55	51,55	103,10
Profit/(loss) per share (cents)	91,20	91,20	182,40	(119,69)	(119,69)	(239,38)

Notes to the statements of cash flows	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 R'000
23. Cash generated from operations				
Profit/(loss) before taxation	205 734	(229 638)	(298)	97
Adjusted for:				
Net finance costs	132 320	176 705	3 953	(7)
Recoupment of debenture interest	(6 130)	(15 469)	(6 130)	(15 469)
Net debenture interest	200 184	125 293	200 184	125 293
Depreciation	382	216	–	–
Scrapping of furniture and equipment	–	82	–	–
Straight-lining accrual of rental income	295	10 725	–	–
Gain on bargain purchase	(7 615)	–	–	–
Fair-value adjustments	(199 356)	218 776	–	–
Cash generated before working capital changes	325 814	286 690	197 709	109 914
Changes in working capital	10 616	(11 569)	(3 105)	3 014
(Increase)/decrease in trade and other receivables	(18 904)	14 057	(3)	20
Increase/(decrease) in trade and other payables	29 520	(25 626)	(3 102)	2 994
	336 430	275 121	194 604	112 928
24. Distribution to unitholders				
Balance at beginning of the year	62 051	72 993	62 051	72 993
Amount per statement of comprehensive income	194 054	109 824	194 054	109 824
Recoupment of distribution	6 130	15 469	6 130	15 469
Balance at end of the year	(105 735)	(62 051)	(105 735)	(62 051)
	156 500	136 235	156 500	136 235
25. Acquisition and development of investment properties/non-current assets held for sale				
Balance at beginning of the year	3 861 855	3 955 730	–	–
Fair value adjustments	218 441	(169 132)	–	–
Bargain purchase price, including deferred taxation	7 615	–	–	–
Balance at end of the year	(4 569 900)	(3 861 855)	–	–
	(481 989)	(75 257)	–	–
26. Capital commitments				
Authorised and committed	79 653	35 000	–	–
The capital expenditure will be funded from unutilised funding facilities.				

Notes to the statements of cash flows	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 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 to 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	**239 479**	213 950	–	–
Between one and five years	**800 554**	747 465	–	–
After five years	**1 233 354**	1 076 090	–	–
	2 273 387	2 037 505	–	–

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
– Directors as listed	Directors
– Majormatic 194 (Pty) Limited	100% subsidiary of Hotel Tourism and Leasure Asset Management (Pty) Limited, which is owned by the Aminzadeh Family Trust. Mr Y Aminzadeh is a beneficiary of the trust. The company leased nine properties from the group in the current year. Mr Y Aminzadeh resigned from the group on 1 December 2012.
– Extrabold Hotel Management Company (Pty) Limited	100% subsidiary of Hotel Tourism and Leasure Asset Management (Pty) Limited, which is owned by the Aminzadeh Family Trust. Mr Y Aminzadeh is a beneficiary of the trust. The company managed nine of the group's properties leased by Majormatic 194 (Pty) Limited. Mr Y Aminzadeh resigned from the group on 1 December 2012.
– 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 AS Rogers and Mr R Asmal are directors of the company.
– Grapnel Property Services (Pty) Limited	Mr GA Nelson has an indirect shareholding via the Nelson Family Trust of 42%. Mr Nelson has been seconded by Grapnel who charged HPF Management (Pty) Limited a monthly fee for Mr Nelson's services.
– Grapnel Property Managers (Pty) Limited	Mr GA Nelson has an indirect shareholding via the Nelson Family Trust of 42%. HPF Management (Pty) Limited leased its previous offices at 3 on Glenhove from the company.

	GROUP 2013 R'000	GROUP 2012 R'000	COMPANY 2013 R'000	COMPANY 2012 R'000
28. Related party transactions (continued)				
28.2 Transactions				
Majormatic 194 (Pty) Limited ("C-Corp")				
Rental received from C-Corp	89 563	96 557	–	–
Administration fees paid by group	686	720	–	–
Trade and other receivables	4 781	8 256	–	–
Tenant deposit held as security on leases	1 614	2 810	–	–
Extrabold Hotel Management Company (Pty) Limited – Hotel management company				
Management fee paid by hotels	15 761	15 347	–	–
Reimbursement of sales team costs	242	1 787	–	–
Vexicure (Pty) Limited				
Rental received by group	70 077	67 102	–	–
Trade and other payables	15 404	8 184	–	–
Tenant deposit and guarantee held as security on leases	3 074	3 074	–	–
Ash Brook Investments 72 (Pty) Limited				
Rental received by group	4 122	–	–	–
Trade and other receivables	10 194	–	–	–
Tenant deposit and guarantee held as security on leases	1 746	–	–	–
HPF Properties (Pty) Limited				
Interest received	–	–	202 352	115 150
HPF Management (Pty) Limited				
Management fees paid	–	–	1 624	1 844
Grapnel Property Services (Pty) Limited				
Mr GA Nelson's remuneration and bonus	2 799	2 915		
Grapnel Property Managers (Pty) Limited				
Head office rent paid	163	640		
The lease expired on 30 September 2012 and the premises were vacated.				

All transactions were on an arm's length basis.

28.3 Directors' remuneration

Group and Company – 30 June 2013

Non-executive	Directors' fees R'000	Consulting fees R'000	Total R'000
KH Abdul-Karrim	237	–	237
Y Aminzadeh	69	–	69
DG Bowden	177	–	177
L de Beer	219	–	219
ZN Kubukeli	230	–	220
MB Madumise	185	–	185
WJ Midgley	126	–	126
WC Ross	289	–	289
	1 532	–	1 532

	Directors' fees R'000	Salaries R'000	Bonuses paid R'000	Total R'000
28. Related party transactions (continued)				
28.3 Directors' remuneration (continued)				
Executive: All directors' salaries and bonuses were borne by the group.				
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' emoluments 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 relate to performance criteria relating to the 2012 financial year. At 30 June 2013, bonus provisions were raised for R Asmal: R813 000; GA Nelson: R1 129 000 and AS Rogers: R977 000. These bonuses will be paid in September 2013.

Group and Company – 30 June 2012

Non-executive	Directors' fees R'000	Consulting fees R'000	Total R'000
F Berkeley	128	–	128
Y Aminzadeh	160	–	160
KH Abdul-Karrim	223	–	223
ZN Kubukeli	198	–	198
MB Madumise	190	200	390
WJ Midgley	156	–	156
WC Ross	247	–	247
L de Beer	199	–	199
	1 501	200	1 701

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

	Directors' fees R'000	Salaries R'000	Bonuses paid R'000	Total R'000
R Asmal	–	1 307	391	1 698
GA Nelson	–	2 221	694	2 915
AS Rogers	–	1 876	582	2 458
	–	5 404	1 667	7 071

All the above directors' emoluments 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.

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

In terms of the ABSA debt facility, 80% of the liability is required to be fixed. The facility for Nedbank does not have any requirements to fix interest rates. The audit committee continuously monitors the Fund's exposure to interest rate volatility and should rates be fixed, this decision will be taken by the audit committee. Short-term debtors and creditors are not exposed to interest rate risk. As a consequence, the entity is exposed to market risk in respect of the fair value of its fixed rate financial instruments and cash flow risk in respect of variable rate financial instruments.

The group's debt carries both fixed and floating interest rates, however the group's current policy is to keep 50% to 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 with ABSA Bank Limited were in place:

	Nominal rate	Commence-ment date	Maturity	Nominal value R'000	**Fair value at 30 June 2013 R'000**	Fair value at 30 June 2012 R'000
Swap 1	7,42%	June-10	June-13	346 670	**–**	(6 766)
Swap 2	7,75%	June-10	June-14	346 670	**(7 846)**	(14 750)
Swap 3	7,98%	June-10	June-15	346 670	**(13 220)**	(21 570)
				1 040 010	**(21 066)**	(43 086)

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

Fair value value sensitivity analysis for fixed rate instruments

The approximate impact of a 50 basis point shift upwards in the level of interest rates would be a positive movement of R4,9 million (2012: R9,73 million) in the fair value of derivatives. The approximate impact of a 50 basis point shift downwards in the level of interest rates would be a negative movement of R4,9 million (2012: R9,73 million) in the fair value of derivatives. Movements in the fair value of derivatives are recognised in profit or loss. The analysis is performed on the same basis for 2012.

Cash flow sensitivity analysis for variable rate instruments

In terms of the floating facilities and the interest swaps each increase/decrease of 50 basis points in the interest rate, this change would affect interest paid and equity by R4,3 million (2012: R1,6 million) per annum. The floating rate sensitivity analysis has been prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. The analysis was performed on the same basis for 2012.

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 seek to optimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect, the entity seeks to borrow for as long as possible at the lowest acceptable cost.

The group regularly reviews the maturity profile of its financial liabilities and seeks to avoid bunching of maturities through the regular replacement of facilities and by using a selection of maturity dates. Refinancing risk may be reduced by reborrowing 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.

Group 30 June 2013	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
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

Group 30 June 2012	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Interest bearing liabilities	1 359 527	–	1 359 527	–
Derivative liability	43 086	6 766	36 320	–
Trade and other payables	37 631	37 631	–	–
Debentures	2 124 285	–	–	2 124 285
Debenture interest payable	62 051	62 051	–	–
	3 626 580	106 448	1 395 847	2 124 285

29.2 Liquidity risk (continued)

Company 30 June 2013	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Trade and other payables	**938**	**938**	**–**	**–**
Debentures	**2 314 441**	**–**	**–**	**2 314 441**
Debenture interest payable	**105 735**	**105 735**	**–**	**–**
	2 421 114	**106 673**	**–**	**2 314 441**

Company 30 June 2012	Carrying amount R'000	0 – 12 months R'000	1 – 4 years R'000	More than 4 years R'000
Trade and other payables	4 040	4 040	–	–
Debentures	2 124 285	–	–	2 124 285
Debenture interest payable	62 051	62 051	–	–
	2 190 376	66 091	–	2 124 285

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

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

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

	30 June 2013 R'000	30 June 2012 R'000
Property valuation	**4 569 900**	3 861 855
65% thereof	**2 970 435**	2 510 206
Effective borrowings	**1 572 627**	1 359 527
Unutilised borrowing capacity	**1 397 808**	1 150 679
Facilities available in terms of agreements at 30 June	**1 726 550**	1 456 550
Undrawn facilities	**153 923**	97 023
Gearing ratio (%)	**34.4**	35.2

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 tenant's business is monitored on an ongoing basis.

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

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		COMPANY	
	2013 R'000	2012 R'000	**2013 R'000**	2012 R'000
Trade and other receivables				
– Tenant and related receivables	**41 875**	22 774	**–**	–
	41 875	22 774	**–**	–
Tenant deposits	**2 345**	36 276	**–**	–
Bank guarantees	**42 628**	34 393	**–**	–
Equity pledged	**1 614**	2 810	**–**	–

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.

29.3.2 Impairment losses

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

	Gross carrying value Group 2013 R'000	Gross carrying value Group 2012 R'000	**Impairment Group 2013 R'000**	Impairment Group 2012 R'000
Current (< 30 days)	**36 070**	19 087	**–**	–
Past due (> 30 days)	**209**	(240)	**–**	–
Past due (> 60 days)	**5 596**	4 509	**(48)**	(3 890)
	41 875	23 356	**(48)**	(3 890)

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

	GROUP	
	2013 R'000	2012 R'000
Balance at beginning of the year	**3 890**	–
Reversal of provisions and recoveries	**(4 478)**	–
Provisions raised	**5 310**	–
Impairment loss recognised	**48**	3 890
Balance at end of the year	**4 770**	3 890

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 its articles of association to 65% of assets, the current strategy is to maintain debt levels below 40%.

During the year, the underlying debt to assets ratio decreased from 35,2% to 34,4% at 30 June 2013.

29.5 Carrying values and fair values of financial instruments

Financial assets or liabilities comprise long-term borrowings and other payables, derivative instruments, cash and receivables. The fair values of all financial instruments, with the exception of linked debentures, are substantially the same as the carrying values reflected on the statement of financial position. The total carrying value of financial liabilities held for trading by the group is R21.1 million (2012: R43,1 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 R42,3 million (2012: R23,4 million) and of those held by the company is R3 161 million (2012: R2 582 million). The total carrying value of financial liabilities at amortised cost held by the group is R4 061 million (2012: R3 521 million) and of those held by the company is R2 692 million (2012: R2 190 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 or 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. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

Non-derivative financial liabilities

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

Trade and other receivables

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

Fair value hierarchy

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

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

	Level 1	Level 2	Level 3	Total
30 June 2013				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	21 066	–	21 066
	–	21 066	–	21 066
30 June 2012				
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	43 086	–	43 086
	–	43 086	–	43 086

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

30. Business combination

Acquisition of the Radisson Blu Gautrain Hotel ("RBGH")

On 30 April 2013, the group acquired the Radisson Blu Gautrain Hotel and 69 parking bays, located on the corner of Rivonia Road and West Street, adjacent to the Sandton Gautrain station, from Savana Property (Pty) Limited.

Rationale

RBGH is a five-star hotel, located in the heart of Sandton and meets the group's investment criteria of being in a strategic location within a major metropolitan area with a strong brand and diverse source markets. The hotel is managed by Rezidor Hotel Group South Africa (Pty) Limited ("Rezidor") under its luxury Radisson Blu brand.

The acquisition of this property will further enhance the quality of the group's portfolio and will expose it to the five-star hotel market in Sandton. Based on the anticipated trading performance and cost of funding, the property is expected to be both earnings and growth enhancing to the group.

Features of the property

RBGH consists of 216 rooms (196 standard rooms, 18 junior suites and 2 one-bedroom suites), 8 conference facilities, the Central One Restaurant and Bar, an outdoor bar and swimming pool, as well as a fitness centre.

Funding

The total purchase consideration was funded by the placement of 12 476 139 A-linked units and B-linked units at a price of R16.65 and R5.39 (R275 million in total), respectively, as well as the placement of secured (R150.0 million) and unsecured (R18.4 million) debt through the group's Domestic Medium-Term Note Programme.

30. Business combination (continued)

The property was purchased for a total purchase consideration of R443.4 million. The following summarises the major classes of consideration transferred, and the recognised amounts of, assets acquired and liabilities assumed at acquisition date:

	R'000
Consideration transferable:	
Cash paid on registration of property transfer	443 385
Identifiable assets acquired and liabilities assumed:	
Investment property at fair value	451 000
Bargain on purchase consideration:	
Fair value of consideration transferred	443 385
Less: Value of identifiable assets	451 000
Gain on bargain purchase	(7 615)

Since acquisition date, the group's revenue increased by an estimated R4.1 million, and the profits increased by R0.1 million as a direct result of the acquisition.

Separate costs in the amount of R1.9 million relating directly to the above acquisition were incurred.

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 Integrated Report, not otherwise dealt with in this Integrated 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% to 98% of the hotel's earnings before interest, tax, depreciation and amortisation ("EBITDA") after deducting the fixed lease portion. Majormatic 194 is now part of the F&V lease agreements.
- 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 Fund's administrative and finance costs. None of these segments meets any of the quantitative thresholds for determining reportable segments in 2013 or 2012.

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 2013					
Segment revenue	124 756	214 108	17 473	–	356 337
Expenditure	–	–	–	(29 878)	(29 878)
Segment results	124 756	214 108	17 473	(29 878)	326 459
Statement of comprehensive income – 30 June 2012					
Segment revenue	120 796	192 965	12 920	–	326 681
Expenditure	–	–	–	(40 289)	(40 289)
Segment results	120 796	192 965	12 920	(40 289)	286 392
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 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
Statement of financial position – 30 June 2012					
Non-current assets					
Investment properties	1 042 000	2 352 000	249 955	–	3 643 955
Current assets					
Non-current assets held for sale	–	217 900	–	–	217 900
Trade and other receivables	4 613	9 068	(45)	9 720	23 356
Segment assets	1 046 613	2 578 968	249 910	9 720	3 885 211

33. Operating segments (continued)

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

	2013 R'000	2012 R'000
Revenues		
Total revenue for reportable segments:		
Other revenue	356 337	326 681
Straight-line of leases	(295)	(10 725)
Consolidated revenue	356 042	315 956
Profit or loss		
Total profit or loss for reportable segments	326 459	286 392
Other profit or loss		
Unallocated amounts:		
Net finance costs	(132 320)	(176 705)
Debenture interest	(194 054)	(109 824)
Transaction costs on business combinations	(1 975)	–
Gain on bargain purchase	7 615	–
Profit on properties held for sale	948	–
Fair value adjustments	199 061	(229 501)
Profit/(loss) before taxation	205 734	(229 638)
Assets		
Total assets for reportable segments	4 612 160	3 885 211
Other unallocated amounts	160 765	149 066
Consolidated total assets	4 772 925	4 034 277
Liabilities		
Total liabilities for reportable segments	–	–
Other unallocated amounts	4 082 173	3 663 394
Consolidated total liabilities	4 082 173	3 663 394

Geographical segments

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

Major customer

Revenues from one customer of the group represents approximately R89,6 million (2012: R96,6 million) of the group's total revenues.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2013

	Gross rental income	Number of rooms
34. Property portfolio information		
34.1 By lease type		
Fixed leases	35%	21%
F&V leases	60%	66%
Variable leases	5%	13%
	100%	100%
34.2 Geographic profile		
Gauteng	47%	46%
KwaZulu-Natal	16%	16%
Western Cape	31%	29%
Eastern Cape	4%	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	66%	81%
Tenant managed hotels	34%	19%
	100%	100%
34.5 Lease expiry profile		
One year	11%	5%
Two to five years	35%	28%
After five years	54%	67%
	100%	100%

SHAREHOLDER ANALYSIS

Hospitality Property Fund Limited – A-Linked Units
Analysis of Linked Unitholders as at 30 June 2013

Linked unitholder spread	Number of linked unitholdings	% of total linked unitholdings	Number of linked units	% of issued capital
1 – 1 000 units	122	16,55%	54 439	0,04%
1 001 – 10 000 units	241	32,70%	914 349	0,67%
10 001 – 100 000 units	204	27,68%	7 789 930	5,68%
100 001 – 1 000 000 units	138	18,72%	50 747 319	36,98%
1 000 001 units and over	32	4,35%	77 731 493	56,63%
Total	737	100,00%	137 237 530	100,00%
Distribution of linked unitholders				
Collective investment schemes	123	16,69%	77 583 042	56,53%
Retirement benefit funds	140	19,00%	29 772 154	21,69%
Assurance companies	21	2,85%	11 946 992	8,71%
Public entities	4	0,54%	2 912 905	2,12%
Hedge funds	12	1,63%	2 718 140	1,98%
Foundations and charitable funds	23	3,12%	2 395 325	1,75%
Medical aid funds	13	1,76%	2 316 784	1,69%
Organs of State	3	0,41%	1 750 377	1,28%
Trusts	69	9,36%	1 511 227	1,10%
Retail linked unitholders	271	36,77%	1 336 447	0,97%
Insurance companies	5	0,68%	828 315	0,60%
Scrip lending	5	0,68%	657 597	0,48%
Private companies	22	2,99%	415 052	0,30%
Managed funds	4	0,54%	355 968	0,26%
Close corporations	11	1,49%	267 281	0,19%
Stockbrokers and nominees	7	0,94%	264 577	0,19%
Custodians	2	0,27%	195 896	0,14%
Public companies	1	0,14%	7 270	0,01%
Investment partnerships	1	0,14%	2 181	0,01%
Total	737	100,00%	137 237 530	100,00%
Linked unitholder type				
Non-public unitholders	2	0,27%	284 944	0,21%
Directors and associates of company holdings	2		284 944	0,21%
Public unitholders	735	99,73%	136 952 586	99,79%
Total	737	100,00%	137 237 530	100,00%
Fund managers with a holding greater than 3% of the issued linked units				
Coronation Fund Managers			65 290 440	47,57%
Sanlam Investment Management			10 340 824	7,53%
Prudential Portfolio Management			7 937 350	5,78%
Stanlib Asset Management			7 842 367	5,71%
Public Investment Corporation			7 248 010	5,28%
Catalyst Fund Managers			4 336 634	3,16%
Total			102 995 625	75,03%
Beneficial linked unitholders with a holding greater than 3% of the issued linked units				
Coronation Fund Managers			34 213 553	24,93%
Sanlam Group			11 222 370	8,18%
Investment Solutions			8 184 912	5,96%
Government Employees Pension Fund			7 613 265	5,55%
Stanlib			7 236 042	5,27%
Rand Mutual Assurance			4 817 959	3,51%
Prudential			4 711 898	3,43%
Total			77 999 999	56,83%
Total number of linked unitholders	737			
Total number of linked units in issue	137 237 530			

SHAREHOLDER ANALYSIS (continued)

Hospitality Property Fund Limited – B-Linked Units
Analysis of Linked Unitholders as at 30 June 2013

Linked unitholder spread	Number of linked unitholdings	% of total linked unitholdings	Number of linked units	% of issued capital
1 – 1 000 units	87	14,19%	43 812	0,03%
1 001 – 10 000 units	238	38,83%	1 032 893	0,75%
10 001 – 100 000 units	133	21,70%	4 484 114	3,27%
100 001 – 1 000 000 units	118	19,25%	43 802 929	31,92%
1 000 001 units and over	37	6,03%	87 873 782	64,03%
Total	613	100,00%	137 237 530	100,00%
Distribution of linked unitholders				
Collective investment schemes	75	12,23%	72 306 574	52,69%
Retirement benefit funds	83	13,54%	45 644 794	33,26%
Retail linked unitholders	305	49,76%	3 058 430	2,23%
Trusts	68	11,09%	2 450 264	1,79%
Stockbrokers and nominees	9	1,47%	1 780 478	1,30%
Organs of State	2	0,33%	1 693 037	1,23%
Insurance companies	4	0,65%	1 517 566	1,11%
Foundations and charitable funds	5	0,82%	1 496 252	1,09%
Private companies	23	3,75%	1 488 033	1,08%
Public entities	1	0,16%	1 261 583	0,92%
Assurance companies	9	1,47%	981 298	0,72%
Medical aid funds	5	0,82%	966 789	0,70%
Custodians	2	0,33%	875 916	0,64%
Scrip lending	4	0,65%	705 125	0,51%
Close corporations	9	1,47%	508 853	0,37%
Managed funds	1	0,16%	206 569	0,15%
Hedge funds	1	0,16%	191 093	0,14%
Investment partnerships	7	1,14%	104 876	0,07%
Total	613	100,00%	137 237 530	100,00%
Linked unitholder type				
Non-public unitholders	2	0,33%	860 666	0,63%
Directors and associates	2		860 666	0,63%
Public unitholders	611	99,67%	136 376 864	99,37%
Total	613	100,00%	137 237 530	100,00%
Fund managers with a holding greater than 3% of the issued linked units				
Investec Asset Management			54 374 151	39,62%
Regarding Capital Management			16 847 009	12,28%
Prudential Portfolio Management			14 078 947	10,26%
Public Investment Corporation			8 338 352	6,08%
Catalyst Fund Managers			6 891 807	5,02%
Personal Trust International			4 810 042	3,50%
Momentum Investments			4 257 183	3,10%
Total			109 597 491	79,86%
Beneficial linked unitholders with a holding greater than 3% of the issued linked units				
Investec			19 286 875	14,05%
Government Employees Pension Fund			8 194 547	5,97%
Prudential			7 928 940	5,78%
Nedbank Group			7 924 102	5,77%
Investment Solutions			5 921 268	4,31%
Standard Bank Group Retirement Fund			5 825 092	4,24%
Momentum			5 240 289	3,82%
Metal Industries Benefit Funds			5 031 608	3,67%
Personal Trust			4 798 442	3,50%
Transnet Retirement Funds			4 178 098	3,04%
Total			74 329 261	54,15%
Total number of linked unitholders	613			
Total number of linked units in issue	137 237 530			

FORECAST FROM RIGHTS ISSUE CIRCULAR

for the year ending 30 June 2013

Extract of forecast from rights issue circular

Set out below is an extract of the forecast included in the rights issue circular issued on 28 May 2012. The profit forecast must be read in conjunction with the independent reporting accountants' report as contained in the circular.

	Forecast Financial year 2014 R'000
Revenue	378 196
Rental income – contractual	381 811
– straight-line accrual	(3 615)
Operating expenses	(29 503)
Operating profit	348 693
Net finance cost	(142 614)
Profit before debenture interest and fair value adjustments	206 079
Debenture interest	(209 694)
Loss before fair value adjustments	(3 615)
Fair value adjustments	3 615
Straight-line rental income accrual	3 615
Profit before taxation	–
Discount on debenture issue amortised	(5 533)
Equity accounted profit from associate after tax	134
Taxation	–
Total loss and comprehensive loss for the year	(5 399)
Reconciliation of earnings, headline earnings and distributable earnings	
Loss for the year	(5 399)
Adjustments: Debenture interest	209 694
Earnings (linked units)	204 295
Adjustments:	
Equity accounted profit from associate after tax	(134)
Fair value – straight-line rental income	(3 615)
Debenture discount amortised	5 533
Headline earnings (linked units)	206 079
Straight-line rental income	3 615
Distributable earnings	209 694

FORECAST FROM RIGHTS ISSUE CIRCULAR (continued)

for the year ending 30 June 2014

	Forecast Financial year 2014
Number of units/shares	
A-linked unit	124 761 391
B-linked unit	124 761 391
Weighted average number of units/shares	
A-linked unit	124 761 391
B-linked unit	124 761 391
Distribution per linked unit (cents) A-linked unit	141,36
– Interim	69,83
– Final	71,53
B-linked unit	26,72
– Interim	16,44
– Final	10,28
	168,08
Earnings per linked unit (cents)	
A-linked unit	81,87
B-linked unit	81,87
	163,74
Headline earnings per linked unit (cents)	
A-linked unit	82,59
B-linked unit	82,59
	165,18
(Loss) and diluted loss per ordinary share (cents)	(2,16)

Consolidated hotel statement of comprehensive income for fixed and variable leases
for the year ending 30 June 2014

	Forecast Financial year 2014 R'000	%
Revenue	1 040 648	100
– Rooms	668 763	64
– Food and Beverage	295 099	28
– Spa and Beauty Salon	22 770	2
– Golf and Safari	17 742	2
– Other	36 274	3
Departmental profit (% of revenue)	637 748	61
– Rooms	516 764	50
– Food and Beverage	90 721	9
– Spa and Beauty Salon	7 084	1
– Golf and Safari	4 184	0
– Other	18 996	2
Other hotel expenses (% of revenue)	283 346	27
Administration and General	111 286	11
Sales and Marketing	74 583	7
Heat, Light and Power	54 200	5
Repairs and Maintenance	43 278	4
Management controllable profit (% of revenue)	354 401	34
Fixed expenses	50 812	5
Management and incentive fees	51 265	5
EBITDA (% of revenue)	252 324	24
Fixed rental	111 210	11
Variable rental	136 397	13
Rent payable – HPF (% of revenue)	247 607	24
HPF rental income reconciliation		
Fixed lease rental income	134 204	
F&V/Variable lease rental income	247 607	
Total rental income	381 811	

FORECAST FROM RIGHTS ISSUE CIRCULAR (continued)

for the year ending 30 June 2014

Hotel room statistics

	Financial year 2013	Financial year 2014	Growth financial year 2014 vs 2013
Occupancies			
Fixed and variable leases	**61,4%**	63,1%	2,8%
Variable leases	**56,2%**	62,9%	12,1%
Total F&V and variable leases	**60,5%**	63,1%	4,3%
Average room rate (R)			
Fixed and variable leases	**987**	1 039	5,3%
Variable leases	**1 265**	1 305	3,1%
Total F&V and variable leases	**1 032**	1 085	5,1%
RevPAR (R)			
Fixed and variable leases	**606**	656	8,2%
Variable leases	**711**	821	15,5%
Total F&V and variable leases	**624**	685	9,7%

Extract of assumptions applied in the forecast

Detail	Assumptions			
Economic indicators				
				FY2014
CPI forecast				5,40%
GDP forecast				3,70%
Interest rates				
		July 2013	Nov 2013	Mar 2014
Prime interest rate forecast		10,00%	10,50%	11,00%
3-month JIBAR forecast		6,58%	7,08%	7,58%
Rental income	Rental income for the fixed leases is based on contractual lease obligations escalated by the appropriate CPI-linked escalation factor. Rental income for the leases linked to F&V and variable rental income is based on an analysis of the performance of the individual hotels.			
		Fixed R'000	Variable R'000	Total R'000
FY2014	Contractual	232 000	135 715	367 715
	Non-contractual	13 414	682	14 096
		245 414	136 397	381 811

Detail	Assumptions
Fund expenditure	General head office expenditure was based on the 2012 forecast, growing by CPI annually. Debt raising fees are expensed over the loan period.
Bad debts	An amount of R1,9 million was forecast for FY2013, being the average annual bad debt for the period 2006 to 2012. This amount was escalated by CPI for 2014. Bad debts are accounted for under operating expenses.
Finance costs	Nedbank The term loan of R606 million expires in 2015 and 2016. Interest is assumed throughout at JIBAR + 290 bps. Current Nedbank facility to be fully drawn by May 2012. ABSA Bank • Refinanced term loans totalling R850 million to be concluded with various banks through a club loan facility at JIBAR + 260 bps. • ABSA access facility of R91 million – rate at prime less 0,5%. • Where surplus cash is available this is invested in a call account at 6% per annum.

SHAREHOLDERS' DIARY

Event	Date
Financial year-end	30 June
Annual general meeting	8 November 2013
Announcement of interim results	20 February 2014*
Announcement of annual results	21 August 2014*
Integrated Report posted to unitholders	27 September 2014*

Distribution timetable	Date
Distribution No. 15 for the year ended 30 June 2013	
Declaration date	20 August 2013
Last date to trade *cum* interest	6 September 2013
Linked units will trade *ex* interest	9 September 2013
Record date	13 September 2013
Payment date of interest distribution	16 September 2013
Distribution No. 16 for the six months ending 31 December 2013 *	
Declaration date	25 February 2014
Last date to trade *cum* interest	13 March 2014
Linked units will trade *ex* interest	14 March 2014
Record date	20 March 2014
Payment date of interest distribution	24 March 2014

** Expected dates*

DISTRIBUTION POLICY

1. **Distribution for the A debentures**

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

   1.1 for the second distribution period ended 30 June 2006, a semi-annualised return of 5,15% on the nominal value of the A debentures;
   1.2 for the first distribution period ended 31 December 2006, a return of 5,28% on the nominal value of the A debentures;
   1.3 for the second distribution period ended 30 June 2007, a return equal to the distribution for the second distribution period for the year ended 30 June 2006, escalated by 5%;
   1.4 for the first distribution periods for the financial years ended/ending June 2008 to 2012, a return equal to the determined or calculated distribution for the corresponding first distribution period for the prior year, escalated by 5%;
   1.5 for the second distribution periods for the financial years ended June 2008 to 2011, a return equal to the determined or calculated second distribution for the corresponding second distribution period for the prior year, escalated by 5%; and
   1.6 for the first distribution periods and second distribution periods thereafter, to repayment of the A debentures, a return equal to the determined or calculated distribution for the corresponding distribution period for the prior year, escalated by the lesser of 5% or the most recently available CPIX figure. *[Clause 5.1 of the first supplemental debenture trust deed.]*

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

   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.]*

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS

Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2005/014211/06)
Share code for A-linked units: HPA
ISIN for A-linked units: ZAE000076790
Share code for B-linked units: HPB
ISIN for B-linked units: ZAE000076808
("Hospitality" or "the company")

Notice is hereby given to linked unitholders of the company that the annual general meeting ("AGM" or "the meeting") of the linked unitholders of Hospitality will be held at Crowne Plaza Johannesburg – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank, on Friday, 8 November 2013 at 10:00 to (i) deal with such business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ("the Companies Act"), as read with the Listings Requirements of the JSE Limited ("the JSE Listings Requirements").

Due to the expanded meaning of "shareholder" in section 57(1) of the Companies Act, the company has expanded its notice to shareholders and debenture holders for a "combined" AGM. Due to Hospitality's linked unit structure, the company's "A" ordinary shares are indivisibly linked to the company's "A" debentures and the company's "B" ordinary shares are indivisibly linked to the company's "B" debentures and these securities trade together as "A" linked units and "B" linked units, respectively ("linked unit"). Accordingly, the company's shareholders are also its debenture holders. Where reference in this notice would typically be made to the "shareholders" of the company, the company has rather adopted the use of the term "linked unitholders". However, voting rights in respect of the matters to be voted on at the AGM will only be exercisable by linked unitholders in their capacity as shareholders in respect of the ordinary share component of the linked units.

Section 63(1) of the Companies Act: Identification of meeting participants

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

Record dates

In terms of sections 59(1)(a) and (b) of the Companies Act, the board of the company has set the record date for the purpose of determining which linked unitholders are entitled to:

- receive notice of the AGM (being the date on which a linked unitholder must be registered in the company's securities register as a linked unitholder in order to receive notice of the annual general meeting) as Friday, 27 September 2013; and
- participate in and vote at the AGM (being the date on which the linked unitholder must be registered in the company's securities register as a linked unitholder in order to participate in and vote at the AGM) as Friday, 1 November 2013.

1. **Presentation of Annual Financial Statements**
   The audited annual financial statements of the company, together with the report of the directors, the independent auditors and the audit committee for the year ended 30 June 2013, have been distributed as required and will be presented to linked unitholders.

   The complete annual financial statements, together with the report of the directors, the independent auditors and the audit committee. are set out on pages 68 to 118 of the integrated annual report.

2. **Ordinary Resolution Number 1: Election of Mr SA Halliday as a Director**
   "Resolved that Mr SA Halliday, who was appointed by the board and whose appointment as a director terminates at the end of the AGM, is elected as a director of the company."

3. **Ordinary Resolution Number 2: Election of Ms Z Ntwasa as a Director**

   "Resolved that Ms Z Ntwasa, who was appointed by the board and whose appointment as a director terminates at the end of the AGM, is elected as a director of the company."

4. **Ordinary Resolution Number 3: Election of Mrs A Soni as a Director**

   "Resolved that Mrs A Soni, who was appointed by the board and whose appointment as a director terminates at the end of the AGM, is elected as a director of the company."

   Reason of Ordinary Resolutions Numbers 1 to 3: Election of directors at the Annual General Meeting

   In accordance with the company's memorandum of incorporation, the directors have the power to appoint a person as a director to fill a casual vacancy. In terms of the Companies Act and the JSE Listings Requirements, any person appointed to fill a casual vacancy may only retain office until the following annual general meeting of the company, at which meeting the appointment of such person as

a director may be confirmed by the shareholders by electing such person as a director. After the annual general meeting held in 2012, Mrs A Soni, Ms Z Ntwasa and Mr SA Halliday were appointed by the board to fill casual vacancies and accordingly shall cease to hold office at the end of the AGM and may be elected as directors by the linked unitholders in accordance with the Companies Act and the JSE Listings Requirements.

Abridged *curriculum vitae* of each of the above directors appears on pages 26 and 27 of the integrated annual report of which this notice forms part.

The board (assisted by the nomination committee) has reviewed its composition against corporate governance requirements and has recommended the election of the directors listed above. It is the view of the board that the election of the candidates referred to above would enable the company to:

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

5. **Ordinary Resolution Number 4: Re-appointment of the External Auditor**

"Resolved that KPMG Inc. is re-appointed as independent external auditor of the company (to report on the financial year ending 30 June 2014) until the conclusion of the next AGM of the company."

Reason of Ordinary Resolution Number 4: Re-appointment of external auditor

KPMG Inc. ("KPMG") has indicated its willingness to continue in office and ordinary resolution number 4 proposes KPMG's re-appointment as the company's independent external auditor until the conclusion of the next AGM of the company to be held in 2014.

In terms of section 90(1) of the Companies Act, each year at its AGM, the company must appoint an auditor who complies with the requirements of section 90(2) of the Companies Act. Hospitality's audit committee has considered KPMG's independence in accordance with the Companies Act and is satisfied that KPMG is independent as contemplated by the Companies Act and the applicable rules of the International Federation of Accountants (IFAC). The audit committee has therefore recommended KPMG for re-appointment as the registered external auditor of the company until the next AGM, subject to linked unitholder approval as required in terms of section 90(1) of the Companies Act.

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

6. **Ordinary Resolution Number 5: Election of Mr KH Abdul-Karrim as a Member of the Audit Committee**

"Resolved that Mr KH Abdul-Karrim, being an independent, non-executive director of the company, be elected as a member of the Audit Committee of the company with effect from the end of this meeting (in terms of section 94(2) of the Companies Act) until the date of the next AGM to be held in 2014."

7. **Ordinary Resolution Number 6: Election of Mrs L de Beer as a Member of the Audit Committee**

"Resolved that Mrs L de Beer, being an independent, non-executive director of the company, be elected as a member of the Audit Committee of the company with effect from the end of this meeting (in terms of section 94(2) of the Companies Act) until the date of the next AGM to be held in 2014."

8. **Ordinary Resolution Number 7: Election of Mr SA Halliday as a Member of the Audit Committee**

"Resolved that Mr SA Halliday, being an independent, non-executive director of the company, be elected as a member of the Audit Committee of the company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act) until the date of the next AGM to be held in 2014, subject to his election as a director in terms of ordinary resolution number 1."

9. **Ordinary Resolution Number 8: Election of Ms Z Ntwasa as a Member of the Audit Committee**

"Resolved that Ms Z Ntwasa, being an independent, non-executive director of the company, be elected as a member of the Audit Committee of the company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act) until the date of the next AGM to be held in 2014, subject to her re-election as a director in terms of ordinary resolution number 2."

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (continued)

10. Ordinary Resolution Number 9: Election of Mr WC Ross as a Member of the Audit Committee

"Resolved that Mr WC Ross, being an independent, non-executive director of the company, be elected as a member of the Audit Committee of the company with effect from the conclusion of this meeting (in terms of section 94(2) of the Companies Act), until the date of the next AGM to be held in 2014."

Abridged *curriculum vitae* of each of the above directors standing for election to the Audit Committee appear on pages 26 and 27 of the integrated annual report of which this notice forms part.

Reason of Ordinary Resolutions Numbers 5 to 9: Election of Audit Committee members

In terms of the Companies Act and the King Report on Governance for South Africa ("King III") the audit committee is a committee of the board elected by the shareholders at each AGM. In terms of the regulations to the Companies Act, at least one-third of the members of a company's audit committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

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

11. Ordinary Resolution Number 10: General Authority to Directors to Allot and Issue Authorised but Unissued Securities

"Resolved that, to the extent required by and subject to the memorandum of incorporation of the company, and subject to the requirements of the debenture trust deed governing the "A" debentures and "B" debentures of the company, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the directors are, as a general authority and approval, authorised, as they in their discretion think fit, to allot and issue the authorised but unissued linked units in the company to such person(s) and upon such terms and conditions as the directors may determine, on the following bases:

1. the directors may allot and issue the authorised but unissued linked units in the company as consideration for the acquisition by the company or any of its subsidiaries of immovable property or for shares in and/or loan accounts against companies owning immovable property for the purpose of acquiring such property;
2. the directors are not authorised to issue more "A" shares and "B" shares in aggregate in any one financial year than such number of "A" shares and "B" shares that constitute 10% of the number of "A" shares and "B" shares in the company's issued share capital as at the date of the passing of this resolution (the determination of which shall exclude any specific issue of shares approved by linked unitholders in their capacity as shareholders), and provided that each "A" share shall be indivisibly linked to one "A" debenture and that each "B" share shall be indivisibly linked to one "B" debenture;
3. the maximum discount at which A-linked units or B-linked units, as the case may be, may be issued in terms of this authority is 5% of the weighted average trade price on the JSE of the relevant linked units measured over 30 business days prior to the date that the placing is authorised by the directors of the company;
4. this authority shall only be valid until the next AGM of the company but shall not endure beyond a period of 15 months from the date of this meeting."

Reason of Ordinary Resolution Number 10: General authority to directors to allot and issue authorised but unissued securities

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

The aggregate number of "A" shares and "B" shares able to be allotted and issued in each class are limited as set out in the above resolution.

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

12 Ordinary Resolution Number 11: Signature of Documentation

"Resolved that any director of the company or the company secretary be and is hereby authorised on behalf of the company to sign any documents and do all such things as may be necessary in order to give effect to those ordinary and special resolutions that are approved at the AGM of the company."

13. Advisory Endorsement of the Remuneration Policy

To endorse, through a non-binding advisory vote, the company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board and statutory committees for their service as directors and members of committees) as set out in the remuneration report on page 51 of the integrated annual report.

Reason of endorsement of remuneration policy

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

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

14. Special Resolution Number 1: Non-executive Directors' Remuneration

"Resolved that, in terms of the company's memorandum of incorporation and sections 66(8) and 66(9) of the Companies Act, the payment of the remuneration of the non-executive directors of the company, for their services as directors, as recommended by the remuneration committee and approved by the board for consideration by linked unitholders for the period 1 July 2013 to 30 June 2014 be and is hereby approved, as follows:

	Chairman Rand	Member Rand
Board (per annum)	240 000	180 000
Audit and risk committee (per annum)	70 000	50 000
Investment committee (per meeting)	10 000	8 000
Nomination committee (per meeting)	6 000	5 000
Remuneration committee (per meeting)	6 000	5 000
Social and ethics committee (per annum)	40 000	32 000

With the exception of the Chairmen of the board and the Audit and Risk Committee, the above fees represent an inflationary increase to the the prior year.

The increased fees for the Chairmen of the board and the Audit and Risk Committee are motivated by their enhanced scope of responsibilities and increased time spent in meeting these responsibilities.

The proposed non-executive directors' fees were recommended by the remuneration committee, approved by the board for consideration at the AGM and are considered to be fair, reasonable and in the best interests of the company.

Reason of Special Resolution Number 1: Non-executive directors' remuneration

The reason of special resolution number 1 is to obtain linked unitholder approval for the remuneration of each of the non-executive directors of the company for the period 1 July 2013 to 30 June 2014. In accordance with sections 66(8) and 66(9) of the Companies Act, remuneration may only be paid to directors for their service as directors in accordance with a special resolution approved by the shareholders of a company within the previous two years and if not prohibited by the company's memorandum of incorporation.

The above fees represent an inflationary increase to the prior year and were determined in order to ensure that the remuneration of non-executive directors of the company remains competitive so that the company may retain and attract persons of the calibre, and with the appropriate level of skill, capability and experience necessary in relation to Hospitality.

In terms of the company's memorandum of incorporation, directors shall also be paid reasonable travelling and other expenses properly and necessarily incurred by them in the execution of their duties, including attendance at meetings of the board and committees of the board.

This resolution is recommended by the company's board of directors who has considered the remuneration payable to the non-executive directors for the period 1 July 2013 to 30 June 2014 and is of the view that such remuneration is fair, reasonable and in the best interests of the company. Full particulars of all remuneration of non-executive directors for their services as directors, paid during the past year, are contained on page 107 of this integrated annual report.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (continued)

15. Special Resolution Number 2: Financial Assistance to Subsidiaries and other Related and Inter-related Entities in terms of sections 44 and 45 of the Companies Act

"Resolved that, to the extent required by the Companies Act, the board of directors of the company may, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company for any purpose or in connection with any matter including, but not limited to, the subscription of any option or any securities issued or to be issued by the company or a related or inter-related company or entity, or for the purchase of any securities of the company or a related or inter-related company or entity, including any direct or indirect financial assistance as contemplated in sections 44 and 45 of the Companies Act, on such terms and conditions as the board may determine, such authority to endure until the next AGM of the company to be held in 2014."

16. Special Resolution Number 3: Financial Assistance to Directors, Prescribed Officers and other Persons Participating in Employee Incentive Schemes in terms of sections 44 and 45 of the Companies Act

"Resolved that, to the extent required by the Companies Act, the board of directors of the company may, subject to compliance with the requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to any of the present or future directors or prescribed officers of the company or of a related or inter-related company or entity (or any person related to any of them or to any company or entity related or inter-related to any of them), or to any other person who is or may be a participant in any employee incentive scheme operated within the Hospitality group, or to any trust or other entity established by the company to facilitate an incentive scheme for qualifying employees of the Hospitality group, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company or entity, or for the purchase of any securities of the company or a related or inter-related company or entity, where such financial assistance is provided in terms of any such scheme that does not constitute an 'employee incentive scheme' as defined in the Companies Act and that satisfies the requirements of section 97 of the Companies Act, on such terms and conditions as the board may determine, such authority to endure until the next AGM of the company to be held in 2014."

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

Hospitality would like the ability to provide financial assistance to related or inter-related persons and entities, such as its subsidiaries, if necessary, in accordance with section 45 of the Companies Act. Furthermore, it may be necessary or desirable for Hospitality to provide financial assistance to related or inter-related companies and entities to subscribe for options or securities or purchase securities of Hospitality or another company related or inter-related to it. Under sections 44 and 45 of the Companies Act, Hospitality will, however, require a special resolution to be adopted before such financial assistance may be provided. In the circumstances and in order to, amongst others, ensure that Hospitality's related and inter-related companies and entities have access to financing and/or financial backing from Hospitality (as opposed to banks), it is necessary to obtain the approval of linked unitholders, as set out in special resolutions numbers 2 and 3.

17. Special Resolution Number 4: General Authority to Acquire Securities

"Resolved that the company and/or a subsidiary of the company is authorised by way of a general authority to repurchase or purchase, as the case may be, securities issued by the company, from any person, upon such terms and conditions and in such number as the directors of the company or the subsidiary may from time to time determine, subject to the applicable requirements of the company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, and subject further to the restriction that the repurchase or purchase, as the case may be, by the company and/or any of its subsidiaries, of securities in the company of any class under this authority shall not, in aggregate in any one financial year, exceed 10% of the securities in issue in such class as at the commencement of such financial year, on the following bases:

(a) each repurchase of securities must be effected through the main order book operated by the JSE Limited trading system and done without any prior understanding or arrangement between the company and the counterparty (reported trades are prohibited);

(b) the number of securities which may be repurchased pursuant to this authority in any financial year, may in the aggregate not exceed 10% of the company's issued share capital of the relevant class from the date of the grant of this authority;

(c) repurchases of securities may not be made at a price greater than 10% above the weighted average of the respective market values of the "A" linked units and the "B" linked units for the five business days immediately preceding the date on which the repurchase is effected (the maximum price). The JSE will be consulted for a ruling if the company's securities have not traded in such a five-business day period;

(d) repurchases of securities by the company or its subsidiaries may not take place during a prohibited period as defined in the JSE Listings Requirements, unless the company has in place a repurchase programme where the dates and quantities of securities to be traded are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;

(e) the company shall release an announcement on SENS and in the press, as soon as it or its subsidiary has, on a cumulative basis purchased or repurchased securities of the relevant class, which constitute 3% of the initial number of securities of such class in issue (at the time that this authority from linked unitholders for the repurchase was granted), and for each 3% in aggregate of the initial number of such class of securities purchased or repurchased, as the case may be, thereafter;

(f) this general authority shall be valid only until the next AGM of the company to be held in 2014, provided that it shall not extend beyond 15 months from the date of passing of this special resolution;

(g) at any point in time, the company may only appoint one agent to effect any repurchases on the company's behalf;

(h) the number of securities purchased and held by a subsidiary or subsidiaries of the company shall not exceed 10% in the aggregate of the number of issued securities in the company at the relevant times;

(i) no voting rights attached to the securities acquired by the company's subsidiaries may be exercised while the securities are held by them and they remain subsidiaries of the company;

(j) a resolution has been passed by the board of the company confirming that it has authorised the general repurchase, that the company and its subsidiaries will satisfy the solvency and liquidity test immediately after the repurchase of shares and that since the test was done there have been no material changes to the financial position of the group;

(k) any such general repurchase will be subject to Exchange Control Regulations;

(l) authorisation thereto is given by the company's memorandum of incorporation; and

(m) if the company enters into derivative transactions that may or will result in the repurchase of shares in terms of this general authority, such transactions will be subject to the requirements in paragraphs (b), (d), (f), (g) and (j) above, and the following requirements:

(1) the strike price of any put option written by the company less the value of the premium received by the company for that put option may not be greater than the fair value of a forward agreement based on a spot price not greater than the maximum price in paragraph c) above ("maximum price");

(2) the strike price and any call option may be greater than the maximum price in paragraph c) at the time of entering into the derivative agreement, but the company may not exercise the call option if it is more than 10% "out the money";

(3) the strike price of the forward agreement may be greater than the maximum price but limited to the fair value of a forward agreement calculated from a spot price not greater than the maximum price."

Having considered the effect of acquisition of the company's securities up to a maximum limit, the directors of the company are of the opinion that, if such acquisitions were implemented:

(i) the company and the group are in a position to repay their debt in the ordinary course of business for a period of 12 months after the date of the notice of the meeting;

(ii) the company and the group's assets will be in excess of the liabilities of the company and the group for a period of 12 months after the date of the notice of the meeting. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the group for the year ended 30 June 2013 which comply with the Companies Act;

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (continued)

(iii) the share capital and reserves of the company and the group will be adequate for the ordinary business purposes of the company and the group for a period of 12 months following the date of the notice of the meeting;;

(iv) the available working capital of the company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of the meeting; and

(v) the directors undertake that, prior to any commencement of any security repurchase in terms of special resolution number 4, the board will, through the company's sponsor, provide the JSE with the necessary report confirming the adequacy of the company's working capital for purposes of undertaking a repurchase of shares in terms of the JSE Listings Requirements."

Statement of the board's intention

Although there is no immediate intention to effect a repurchase of linked units of the company, the board believes that it should retain flexibility so that the directors may utilise the general authority to repurchase shares as and when suitable opportunities present themselves and which opportunities may require immediate action.

Other disclosure in accordance with Section 11.26 of the JSE Listings:

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

- Directors and management– pages 26 and 27.
- Major linked unitholders – pages 119 and 120.
- Directors' interests in linked units – page 73.
- Share and debenture capital of the company – pages 97 to 99.

Material change statement

Other than the facts and developments reported in the integrated annual report of which this notice forms part, there have been no material changes in the affairs or the financial position of the company or that of its subsidiaries since the date of signature of the audited annual financial statements for the year ended 30 June 2013 and the date of this notice.

Directors' responsibility statement

The directors, whose names appear on page 47 of the integrated annual report, collectively and individually, accept full responsibility for the accuracy of the information given and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all information required by law and the JSE Listings Requirements.

Litigation statement

In terms of Section 11.26 of the JSE Listings Requirements, the directors whose names appear on page 47 of the integrated annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the company's financial position other than those disclosed in the most recent financial statements.

Reason of Special Resolution Number 4: General authority to acquire securities

The reason for special resolution number 4 is to grant the board a general authority for the acquisition of the company's linked units by the company, or by a subsidiary or subsidiaries of the company.

The existing general authority for the company and its subsidiaries to repurchase or purchase, as the case may be, securities in the company, granted by linked unitholders at the previous annual general meeting of the company on 21 September 2012, is due to expire at this AGM, unless renewed.

Voting requirements

All ordinary resolutions will, in terms of the Companies Act, require support of more than 50% of the voting rights of linked unitholders, in their capacity as shareholders, exercised thereon, to be approved. All special resolutions will, in terms of the Companies Act, require support of at least 75% of the total voting rights of linked unitholders, in their capacity as shareholders, exercised thereon at the meeting, to be approved.

Electronic participation

The company has made provision for its linked unitholders or their proxies to participate electronically in the AGM by way of telephone conferencing. Should a linked unitholder wish to participate in the AGM by telephone conference call as aforesaid, the linked unitholder, or his/her/its proxy, will be required to advise the company thereof by submitting by email to the company secretary at rosao@hpf.co.za or by fax to +27+11 994 6301 for the attention of Mrs Rosa van Onselen, relevant contact details, including an email address, cellular number and landline number, as well as full details of the linked unitholder's title to securities issued by the company and proof of identity, in the form of certified copies of identity documents and share certificates (in the case of certificated shares) and (in the case of dematerialised shares)

written confirmation from the linked unitholder's Central Securities Depository Participant ("CSDP") confirming the linked unitholder's title to the dematerialised shares, to reach the company by no later than 10h00 on Monday, 28 October 2013. Upon receipt of the required information by the company, the linked unitholder concerned will be provided with a secure code and instructions to access the electronic communication during the AGM. Linked unitholders must note that access to the electronic communication will be at the expense of the linked unitholders who wish to utilise the facility.

Linked unitholders and their appointed proxies attending the AGM by conference call will not be able to cast their votes at the AGM through this medium. Accordingly, linked unitholders making use of the electronic participation facility are requested to submit their forms of proxy to the company, as directed in this notice,

Proxies, authority for representatives to act and voting

Linked unitholders who are entitled to attend, participate in and vote at the AGM, are entitled to appoint a proxy (or more than one proxy in respect of different linked units held by them) to attend, speak and vote in their stead. A proxy need not be a linked unitholder of the company and shall be entitled to vote on a show of hands or a poll. For the convenience of registered linked unitholders of the company, a form of proxy is enclosed herewith to be completed by them in their capacity as shareholders.

The enclosed form of proxy is only to be completed by those linked unitholders who are:

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

It is requested that the company receives forms of proxy at its registered office by no later than 10h00 on Wednesday, 6 November 2013. If linked unitholders who have not dematerialised their linked units or who have dematerialised their linked units with 'own name' registration, and who are entitled to attend, participate in and vote at the AGM, do not deliver forms of proxy to the company by the relevant time, such linked unitholders will nevertheless be entitled to lodge the form of proxy in respect of the AGM immediately prior to the exercising of the linked unitholders' rights at the AGM, in accordance with the instructions therein, with the chairman of the AGM. Any linked unitholder who completes and lodges a form of proxy will nevertheless be entitled to attend, participate in and vote in person at the AGM should the linked unitholder decide to do so.

All other beneficial owners who have dematerialised their linked units through a CSDP or broker and wish to attend the AGM should contact their CSDP or broker:

- to provide them with the necessary letter of Representation in order to attend the AGM; or
- to furnish the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

These linked unitholders must not use a form of proxy.

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

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

Every linked unitholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents. On a poll, every linked unitholder present in person or represented by proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of all the shares held by him/her/it bears to the aggregate amount of the nominal value of all the shares issued by the company.

By order of the board

LR van Onselen
For HPF Management (Pty) Limited
Company secretary

13 September 2013

FORM OF PROXY

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
("Hospitality" or "the company")

THIS FORM OF PROXY IS ONLY FOR USE BY:

- registered linked unitholders of the company, in their capacity as shareholders, who have not yet dematerialised their Hospitality linked units, recorded in the company's securities register as at Friday, 25 October 2013, in the exercise of their voting rights in respect of the ordinary shares in the capital of the company;
- registered linked unitholders, in their capacity as shareholders, who have already dematerialised their Hospitality linked units and which units are registered in their own names in the company's sub-register as at Friday, 25 October 2013,.

For completion by the aforesaid, registered shareholders of Hospitality who are unable to attend the annual general meeting of the company to be held at Crowne Plaza Johannesburg – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank, on Friday, 8 November 2013 at 10h00 ("the AGM").

Given that the company's "A" ordinary shares are indivisibly linked to the company's "A" debentures and the company's "B" ordinary shares are indivisibly linked to the company's "B" debentures, and these securities are traded together as a linked unit, so that they are accordingly held by the same person, where references in this form of proxy would typically be made to the 'shareholders' of the company, the company has rather adopted the use of the term 'linked unitholders'. Voting rights will however only be exercisable by linked unitholders in their capacity as shareholders in respect of the ordinary share component of the linked units.

Certificated linked unitholders

If you are a certificated linked unitholder or have dematerialised your linked units with 'own name' registration and you are unable to attend the AGM of Hospitality to be held at 10h00 on Friday, 8 November 2013 at Crowne Plaza Johannesburg – The Rosebank, corner Tyrwhitt and Sturdee Avenues, Rosebank but wish to be represented thereat, you are requested to complete and return this form of proxy in accordance with the instructions contained herein and to lodge it with, or post it to, the Transfer Secretaries, namely Computershare Investor Services (Pty) Limited, so as to be received by them by no later than 10h00 on Wednesday, 6 November 2013.

Dematerialised linked unitholders, other than those with 'own name' registration

If you hold dematerialised linked units in the Fund through a CSDP or broker, other than with an 'own name' registration, you must timeously advise your CSDP or broker of your intention to attend and vote at the AGM or be represented by proxy thereat in order for your CSDP or broker to provide you with the necessary letter of representation to do so, or should you not wish to attend the AGM in person, you must timeously provide your CSDP or broker with your voting instructions in order for the CSDP or broker to vote in accordance with your instructions at the AGM.

I/We (name/s in BLOCK LETTERS) _____

of (address) _____

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

1. _____ or failing him/her,
2. _____ or failing him/her,
3. the chairman of the AGM, as my/our proxy to attend, speak and vote for me/us on my/our behalf or to abstain from voting at the AGM of the company and at any adjournment thereof in respect of the share component of the linked units registered in my/our name/s, as follows:

RESOLUTIONS	FOR	AGAINST	ABSTAIN
1. Ordinary Resolution Number 1: Election of Mr SA Halliday as a Director			
2. Ordinary Resolution Number 2: Election of Ms Z Ntwasa as a Director			
3. Ordinary Resolution Number 3: Election of Mrs A Soni as a Director			
4. Ordinary Resolution Number 4: Re-appointment of the External Auditor			
5. Ordinary Resolution Number 5: Election of Mr KH Abdul-Karrim as a member of the audit committee			
6. Ordinary Resolution Number 6: Election of Mrs L de Beer as a member of the audit committee			
7. Ordinary Resolution Number 7: Election of Mr SA Halliday as a member of the audit committee			
8. Ordinary Resolution Number 8: Election of Ms Z Ntwasa as a member of the audit committee			
9. Ordinary Resolution Number 9: Election of Mr WC Ross as a member of the audit committee			
10. Ordinary Resolution Number 10: General Authority to Directors to Allot and Issue Authorised but Unissued Securities			
11. Ordinary Resolution Number 11: Signature of documentation			
12. Advisory endorsement of the remuneration policy			
13. Special Resolution Number 1: Non-executive directors' remuneration			
14. Special Resolution Number 2: Financial assistance to subsidiaries and other related and inter-related entities in terms of sections 44 and 45 of the Companies Act			
15. Special Resolution Number 3: Financial assistance to directors, prescribed officers and other persons participating in employee incentive schemes in terms of sections 44 and 45 of the Companies Act			
16. Special Resolution Number 4: General authority to acquire securities			

Signed at _____ on _____ 2013

Signature(s) _____

Assisted by (where applicable) _____

Name _____ Capacity _____

Signature _____

Please read notes overleaf.

NOTES TO THE FORM OF PROXY AND SUMMARY OF RIGHTS UNDER SECTION 58 OF THE COMPANIES ACT, 2008

1. Only linked unitholders who are registered in the register of the company under their own name may complete a form of proxy or attend the annual general meeting. This includes linked unitholders who have not dematerialised their linked units or who have dematerialised their linked units with "own name" registration. A linked unitholder entitled to attend and vote at the annual general meeting is entitled to appoint one individual as a proxy to attend, speak and, on a poll, to vote in his/her place at the annual general meeting. A proxy need not be a linked unitholder of the company. Such linked unitholder may insert the name of a proxy of the linked unitholder's choice in the space provided, with or without deleting 'the chairman of the AGM, provided that any such deletion must be signed in full by the linked unitholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow. Should a proxy not be specified, this will be exercised by the chairman of the class AGM.

2. The date must be filled in on this form of proxy and when it is signed.

3. The completion and lodging of this form will not preclude the relevant linked unitholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed, should such linked unitholder wish to do so.

4. The appointment of a proxy or proxies:

   4.1 is suspended at any time to the extent that the linked unitholder chooses to act directly and in person in the exercise of any rights as a linked unitholder;

   4.2 is revocable in which case the linked unitholder may revoke the proxy appointment by:

      4.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and

      4.2.2 delivering a copy of the revocation instrument to the proxy and to the company.

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:

   5.1 stated in the revocation instrument, if any; or

   5.2 upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Companies Act.

6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the relevant company's memorandum of incorporation to be delivered by such company to the linked unitholder must be delivered by such company to:

   6.1 the linked unitholder, or

   6.2 the proxy or proxies if the linked unitholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.

7. The proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used unless revoked as contemplated in section 58(5) of the Companies Act.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies. The completion of any blank space(s) need not be signed or initialled.

9. A power of attorney or other documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form unless previously recorded by the transfer secretaries of the company or waived by the chairman of the AGM.

10. A minor must be assisted by his/her parent/guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

11. A company holding shares in the company that wishes to attend and participate in the AGM should ensure that a resolution authorising a representative to act is passed by its directors. Resolutions authorising representatives in terms of section 57(5) of the Companies Act must be lodged with the company's transfer secretaries prior to the AGM.

12. Where there are joint holders of linked units, only one of such persons need sign the form of proxy. If more than one of such joint linked unitholder votes, whether in person or by proxy, only the vote of one of the said persons whose name appears first in the securities register in respect of such linked units or his/her proxy, as the case may be, shall be counted.

13. Every linked unitholder present in person or represented by proxy and entitled to vote shall, in his/her/its capacity as shareholder, on a show of hands, have only one vote irrespective of the number of shares he/she/it holds or represents.. On a poll every linked unitholder present in person or represented by a proxy and entitled to vote, shall, in his/her/its capacity as shareholder, be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the linked units held by him/her bears to the aggregate amount of the nominal value of all the linked units of the relevant class issued by the company.

14. The chairman of the AGM may reject or accept any proxy which is completed and/or received, other than in accordance with these notes, provided that he shall not accept a proxy unless he/she is satisfied as to the matter in which a linked unitholder wishes to vote.

15. A proxy may not delegate his/her authority to act on behalf of the linked unitholder, to another person.

16. You are not obliged either to cast all your votes or to cast all your votes in the same way. A linked unitholder's instruction to the proxy must be indicated either by:

   16.1 the insertion of an "X" in the appropriate box next to the resolution (i.e. in favour of and/or against and/or by way of abstention), in which event the proxy will cast all your votes in the manner so specified; or

   16.2 setting out the relevant number of linked units to be voted on behalf of that linked unitholder in the appropriate box provided next to the resolution, provided that, if for any resolution the aggregate number of votes to be cast would exceed the total number of linked units held, you will be deemed to have given no specific instruction as to how you wish your proxy to vote in respect of that resolution.

   Failure to comply with the above will be deemed to authorise the chairman of the AGM, if the chairman is the authorised proxy, to vote in favour of the resolutions at the annual general meeting or other proxy to vote or to abstain from voting at the AGM as he/she deems fit, in respect of the shares concerned. A linked unitholder or the proxy is not obliged to use all the votes exercisable by the linked unitholder or the proxy, but the total of votes cast in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the linked unitholder or the proxy.

17. It is requested that this form of proxy be lodged or posted or faxed to the company's registered office or faxed to +27+11 994 6301, to be received by the company not later than 10h00 on Wednesday, 6 November 2013.

CORPORATE INFORMATION

SECRETARIES AND MANAGERS
LR van Onselen for
HPF Management (Pty) Limited
The Zone II, Loft Offices
East Wing, 2nd Floor
Cnr Oxford Road and Tyrwhitt Avenue
Rosebank, Johannesburg, 2196
Tel: +27 (11) 994 6300
Fax: +27 (11) 994 6301

REGISTERED OFFICE
The Zone II, Loft Offices
East Wing, 2nd Floor
Cnr Oxford Road and Tyrwhitt Avenue
Rosebank, Johannesburg, 2196
(PO Box 522195, Saxonwold, 2132)
Tel: +27 (11) 994 6300
Fax: +27 (11) 994 6301

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

Nedbank Limited
135 Rivonia Road
Sandton
(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)

SPONSOR
Rand Merchant Bank, a division of FirstRand Bank Limited
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
(PO Box 786273, Sandton, 2146)

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

Administrative Team - Nomthamlazo Memela and Ellen Kgafela

www.hpf.co.za

Hospitality
PROPERTY FUND