Hospitality PROPERTY FUND

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 Fund" or "the company")

Unaudited interim results for the six months ended 31 December 2012, interest payment declaration and change to the board of directors

Comments

1. Introduction

The Fund achieved positive year-on-year growth in distributions in an improving hospitality business environment, after weathering extremely tough industry-wide operating conditions between 2009 and 2011, and overcoming its debt refinancing issues in the previous year. Hospitality has met the forecast set out in its rights offer circular dated 28 May 2012 ("forecast"), for the six months ended 31 December 2012 ("the period").

The A-linked unit distribution amount grew by 5,0% to 66,51 cents, in line with the Fund's distribution structure, while the distribution on the B-linked unit showed an increase of 16,2% to 9,19 cents compared to the previous corresponding period. Both distributions are in-line with those that contained in the forecast.

Hospitality made further progress with its strategy of improving the quality of its property portfolio. Having achieved critical mass by bulking up the assets of the Fund since its listing, the focus over the last two years evolved towards enhancing the quality of its assets. The Fund has applied a two-fold approach of actively pursuing opportunities to acquire large hotel properties in major metropolitan areas with diverse source markets and strong brands while disposing of non-core properties that do not fit this profile. The recent announcement to acquire the Radisson Blu Gautrain Hotel ("Gautrain Hotel") in Sandton and the previous 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.

2. Trading environment

Industry statistics have confirmed the recovery trend in the hospitality market that commenced some 12 months ago, with growth in occupancies and room rates matching levels last seen prior to the global downturn in 2008. According to STR Global, the industry reported an increase of 5,1% to 61,7% in occupancy for the period compared to the prior year while average room rates ("ARR") increased 5,1% to R896, supporting an accelerated revenue per available room ("RevPar") growth of 10,4%. The performance of the Fund on that portion of its portfolio which is subject to variable rental income (ie dependant on operational earnings) reflected an increase in occupancy of 2,3% to 59,4%, while ARR declined marginally, by 1,0% to R964 translating into RevPar growth of 1,2% for the period. The disparity between the Fund's performance and the industry can largely be attributed 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 refurbishment as more fully outlined in section 3 below. Excluding these anomalies, the Fund's performance would have been more aligned to industry trends.

Hotel owners continue to absorb increases in overhead costs, which remain ahead of inflation with the most significant being the impact of escalations in administered prices for electricity that have a marked effect on earnings. The Fund continues to proactively monitor and manage municipal valuations and the implementation of its energy saving policies has successfully resulted in the reduced consumption of utilities.

With regard to the Fund's fixed lease properties, management continually monitors and interacts with the tenants in order to understand their underlying business performance and evaluate the serviceability of rentals.

3. Results

Rental income for the period increased 8,3% to R174 million and the Fund anticipates achieving its full-year forecast. The growth in rental income was underpinned by improving overall occupancies and ARR's over the bulk of the properties in the core metropolitan portfolio which were ahead of expectations. However, the performance of the Westin Cape Town was lower than the prior period as a result of the once-off boost to rental income in November 2011, during a major product launch for a luxury motor vehicle brand that spanned six-weeks. In addition, more than half of the rooms at the Radisson Blu Waterfront were refurbished during the first quarter of the review period, impacting its performance.

Fund expenses decreased by some R2,7 million, mainly due to the saving on the prior year provision for bad debt amounting to R4,8 million in respect of a potential tenant default. This decrease was partially off-set by inflationary increases in operating expenses and higher than anticipated employee incentive costs. Net finance costs decreased by R14,1 million as the proceeds of the rights offer were utilised to reduce bank debt.

In line with the first-half forecast for the 2013 financial year, profit before debenture interest amounted to R94,4 million, up 49,3% from the prior year comparable period. On a diluted basis, taking into account the impact of the 36 million additional linked units issued during the rights offer in June 2012, the distribution per combined linked unit increased by 6,2%.

The A-linked unit distributable amount of 66,51 cents grew by 5%, while the distribution on the B-linked unit showed an increase of 16,2% to 9,19 cents, both in line with the forecast.

The following table reflects the operating financial results for the period ended 31 December 2012, compared to the forecast and the corresponding previous comparable period:

Unaudited six months to 31 December

	Actual Dec 2012 R'000	Forecast Dec 2012 R'000	Variance R'000	Variance %	Actual Dec 2011 R'000	Variance R'000	Variance %
Contractual rental	173 957	177 055	(3 098)	(1,7)	160 558	13 399	8,3
Fund expenses	(14 591)	(14 063)	(528)	(3,8)	(17 345)	2 754	15,9
Profit on sale of properties held for sale	974	–	974	100,0	–	974	100,0
Net finance costs	(65 899)	(68 376)	2 477	3,6	(79 971)	14 072	17,6
Profit before debenture interest	94 441	94 616	(175)	(0,2)	63 242	31 199	49,3
Debenture interest	(94 441)	(94 616)	175	0,2	(63 242)	(31 199)	(49,3)
Distribution – A-linked unit	(82 981)	(82 981)	–	0,0	(56 225)	(26 756)	(47,6)
Distribution – B-linked unit	(11 460)	(11 635)	175	1,5	(7 017)	(4 443)	(63,3)
Distribution – A-linked unit (cents)	66,51	66,51	–	–	63,34	3,17	5,0
Distribution – B-linked unit (cents)	9,19	9,33	(0,14)	(1,5)	7,91	1,28	16,2
Combined distribution – unit (cents)	75,70	75,84	(0,14)	(0,2)	71,25	4,45	6,2

4. Funding

The group's debt facilities with financial institutions as at 31 December 2012, amounted to R1,46 billion. Total funds withdrawn on these facilities were R1,32 billion resulting in a loan-to-value (LTV) ratio (total interest bearing liabilities/investment property value) of 33,9%. The average cost of borrowings was 9,84% (2011: 8,8%) for the period under review with 78,8% 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 with Absa at year-end for R1,04 billion remain unchanged.

In December 2012, the Board proposed a structure to establish a Domestic Medium-Term Note Programme (Corporate Bond) to fund future growth opportunities. Rand Merchant Bank (a division of FirstRand Bank Limited) was appointed as advisor and transaction bookrunner. The proceeds raised through this issuance will *inter alia* be utilised to fund the anticipated Gautrain Hotel acquisition.

5. Property portfolio

The Fund's portfolio comprises interests in 26 hotel and resort properties in South Africa. As at 31 December 2012, the value of the portfolio was R3,896 billion. The portfolio is segmented into three lease types, namely; fixed lease properties, fixed and variable leased properties (F&V) and variable lease properties.

The net asset value per linked unit as at 31 December 2012, was R10,16 (excluding deferred taxation) (June 2012: R10,15). The weighted average lease expiry period is 6,81 years.

6. Acquisitions and disposals

The Fund has achieved a significant milestone in its acquisition strategy, with the agreement that was reached in December 2012, to purchase 78,2% of the Gautrain Hotel and associated facilities for R346,7 million.

The Fund subsequently entered into a first addendum to the sale agreement to acquire the remaining 21,8% of the Gautrain Hotel and additional facilities. The total revised purchase consideration amounts to R443,4 million, which is anticipated to be funded partly through the Corporate Bond and partly through the issue of units for property. Acquisition of the property is subject to fulfilment of the conditions precedent, including Competition Commission approval and obtaining the required funding. This prestigious property is located on the corner of Rivonia Road and West Street, adjacent to the Gautrain station and meets all the Fund's investment criteria.

The Gautrain Hotel is expected to yield around 8,2% in year one with 15% growth in earnings in the second year, to be generated through the fixed and variable lease structure.

Hospitality's portfolio also includes six properties, with a combined value of R217,9 million, that no longer fit the Fund's investment criteria and have therefore been earmarked for disposal, as previously stated. These properties are currently being marketed and although there has been strong interest, no deals have yet been finalised. As these properties are largely trading well, the Fund is under no pressure to lower its asking prices to expedite sales.

7. Development and capital projects

The Fund has not initiated any significant refurbishment projects since June 2012. Minor projects were carried out at the Radisson Blu Waterfront and the Westin Cape Town at a combined cost of R15.0 million. As virtually all of the Fund's properties with F&V leases have been refurbished in the last five years, minimal further capital expenditure is required in the short term and the high quality of its properties continues to provide a solid platform to benefit from, as trading improves in the recovering market. The application process for the development rights on the Phase 2 land at Arabella Hotel & Spa is in progress.

8. Unitholders

During the period 14% of the A-linked units and 23% of the B-linked units were traded on the JSE Limited.

9. Changes to the composition of the Board

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 has 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.

The Board thanks Messrs Aminzadeh and Midgley for their invaluable contributions.

Mr Donald Bowden was appointed as an independent non-executive director to the Board with effect from 24 August 2012.

Mr Gerald Nelson, who was the co-founder of the Fund and has held the position of Chief Executive Officer ("CEO") since its listing in 2006, has announced that he will be retiring as CEO from the Fund at the end of June 2013 and will remain on the board as a non-executive director. He will be succeeded by Mr Andrew Rogers, the deputy CEO of the Fund, assisted by Mr Ridwaan Asmal in his continuing role as Financial Director.

10. Prospects

The hospitality sector is in a recovery phase, now that the post-2010 oversupply of rooms is dissipating and limited new supply is coming on stream. In addition, improved sentiment among corporates and the public sector is supporting increased demand for accommodation and conferencing. As a result, the positive trend in occupancy and room rates seen over the last 12 months should be sustainable for the remainder of the financial year. The Fund is well positioned to benefit from these positive fundamentals.

Distributions for the year ended 30 June 2013, are expected to be at least in line with the forecast issued in the rights offer circular of 134,63 cents per A-linked unit and 14,11 cents per B-linked unit.

11. Payments of debenture interest

Unitholder's will receive debenture interest payment number 14 for the six-month period ended 31 December 2012, of 66,51 cents per A-linked unit and 9.19 cents per B-linked unit.

	2013
Last day to trade *cum* interest	8 March
Linked units will trade *ex*-interest	11 March
Record date	15 March
Payment date	18 March

The above distribution is not regarded as a dividend and therefore no Dividend's Tax is payable on the distribution amount.

Unitholders may not dematerialise or rematerialise their linked units between Monday, 11 March 2013 and Friday, 15 March 2013, both days inclusive.

By order of the Board

W C Ross
(Acting Chairman)

G A Nelson
(Chief Executive Officer)

20 February 2013

Directors
W C Ross *(Acting Chairman)**+, G A Nelson *(CEO)*, A S Rogers (*Deputy CEO)*, K H Abdul-Karrim*+, R Asmal, D G Bowden*+, L de Beer *+, Z N Kubukeli*+, M B Madumise*+, W J Midgley*
*(*Non-executive, +Independent)*

Registered office
The Zone Phase 2, Loft Offices East Wing, 2nd Floor, Cnr Oxford Road and Tyrwhitt Avenue, Rosebank, 2196
Tel: +27 11 994 6300 **Fax:** +27 11 994 6301 **Email:** info@hpf.co.za **Web:** www.hpf.co.za

Basis of preparation and accounting policies

The preparation of these results was supervised by the Financial Director, Mr Ridwaan Asmal.

The condensed financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), including the presentation and disclosure requirements of IAS34 *(Interim Financial Reporting)*, the SAICA Financial Reporting Guides as issued by the Accounting Practices and the requirements of the Companies Act of South Africa, 2008. KPMG Inc, the independent auditor, has not reviewed the financial statements. The accounting policies used are consistent with those used in the annual financial statements for the year ended 30 June 2012 .

Statement of comprehensive income

for the six months ended 31 December 2012

	Unaudited Dec 2012 R'000	Unaudited Dec 2011 R'000	Audited June 2012 R'000
Revenue	173 852	150 577	315 956
Rental income – contractual	173 957	160 558	326 681
– straight-line accrual	(105)	(9 981)	(10 725)
Expenditure	(14 591)	(17 345)	(40 289)
Operating expenses	(14 591)	(17 345)	(40 289)
Operating profit	159 261	133 232	275 667
Profit on properties held for trading	974	–	–
Net finance cost	(65 899)	(79 971)	(176 705)
Finance income	228	208	1 214
Finance costs	(66 127)	(80 179)	(177 919)
Profit before debenture interest, goodwill, fair value adjustments and taxation	94 336	53 261	98 962
Recoupment of debenture interest	–	–	15 469
Debenture interest	(94 441)	(63 242)	(125 293)
Loss before fair value adjustments, goodwill and taxation	(105)	(9 981)	(10 862)
Fair value adjustments	2 309	(9 123)	(218 776)
Investment properties, before straight-lining adjustment	–	–	(169 132)
Straight-line rental income accrual	105	9 981	10 725
Total fair value of investment properties	105	9 981	(158 407)
Goodwill impairment	–	–	(38 822)
Interest-rate swaps	2 204	(19 104)	(21 547)
Profit/(Loss) before taxation	2 204	(19 104)	(229 638)
Debenture discount amortisation	(2 662)	–	(174)
Equity accounted profit from associate after tax	55	131	222
Taxation	–	–	14 053
Total loss and comprehensive loss for the period	(403)	(18 973)	(215 537)
Reconciliation between earnings, headline earnings and distributable earnings			
Loss for the period	(403)	(18 973)	(215 537)
Adjustments: Debenture interest	94 441	63 242	125 293
Profit/(Loss) (linked units)	94 038	44 269	(90 244)
Adjustments:			
Equity accounted profit from associate after tax	(55)	(131)	–
Goodwill impairment	–	–	38 822
Fair value – investment properties revaluation, net of tax	–	–	154 995
Fair value – straight-line rental income	(105)	(9 981)	(10 725)
Headline earnings (linked units)	93 878	34 157	92 848
Fair value – interest rate swaps	(2 204)	19 104	21 547
Transaction costs on business combinations	–	–	–
Debenture discount amortisation	2 662	–	174
Straight-line rental income	105	9 981	10 725
Distributable earnings	94 441	63 242	125 293
Number of units/shares			
A-linked unit	124 761 391	88 761 391	124 761 391
B-linked unit	124 761 391	88 761 391	124 761 391
Weighted average number of units/shares			
A-linked unit	124 761 391	88 761 391	90 040 080
B-linked unit	124 761 391	88 761 391	90 040 080
Distribution per linked unit (cents)			
A-linked unit	66,51	63,34	113,08
– Interim	66,51	63,34	63,34
– Final	–	–	49,74
B-linked unit	9,19	7,91	7,91
– Interim	9,19	7,91	7,91
– Final	–	–	–
	75,70	71,25	120,99
Loss per linked units (cents)			
A-linked unit	37,69	24,94	(50,11)
B-linked unit	37,69	24,94	(50,11)
	75,38	49,88	(100,22)
Headline earnings per linked unit (cents)			
A-linked unit	37,62	19,24	51,55
B-linked unit	37,62	19,24	51,55
	75,24	38,48	103,10
Loss and diluted loss per ordinary share (cents)	(0,16)	(10,69)	(119,69)
Headline and diluted headline loss per ordinary share (cents)	(0,00)	(0,06)	(0,04)

Statement of financial position

as at 31 December 2012

	Unaudited Dec 2012 R'000	Unaudited Dec 2011 R'000	Audited Jun 2012 R'000
ASSETS			
Non-current assets	3 772 862	4 167 187	3 758 599
Investment properties	3 653 965	4 008 491	3 639 508
Straight-line rent income accrual	4 342	5 191	4 447
Investment properties and related accrual	3 658 307	4 013 682	3 643 955
Furniture and equipment	463	612	482
Investment in associate	92	71	162
Goodwill	114 000	152 822	114 000
Current assets	267 655	57 849	275 678
Non-current assets held for sale	218 034	–	217 900
Properties held for trading	19 702	17 948	18 980
Trade and other receivables	21 938	38 886	23 356
Cash and cash equivalents	7 981	1 015	15 442
Total assets	4 040 517	4 225 036	4 034 277
EQUITY AND LIABILITIES			
Equity	370 480	518 182	370 883
Share capital and share premium	392 127	342 862	392 127
Retained earnings	112 671	123 849	115 278
Fair value reserve	(134 318)	51 471	(136 522)
Non-current liabilities	3 521 203	2 282 604	3 563 628
Debentures	2 126 946	1 668 714	2 124 285
Interest-bearing liabilities	1 320 629	522 377	1 359 527
Derivative liability	36 898	40 646	43 086
Deferred taxation	36 730	50 867	36 730
Current liabilities	148 834	1 424 250	99 766
Trade and other payables	50 410	30 174	37 631
Bank overdraft	–	13 357	–
Interest-bearing liabilities	–	1 317 483	–
Derivative liability	3 984	–	–
Taxation	–	–	84
Debenture interest payable	94 440	63 236	62 051
Total equity and liabilities	4 040 517	4 225 036	4 034 277
A. Net asset value per linked unit (Rand)			
A-linked unit	10,01	12,32	10,00
B-linked unit	10,01	12,32	10,00
B. Net asset value per linked unit (excluding deferred taxation) (Rand)			
A-linked unit	10,16	12,61	10,15
B-linked unit	10,16	12,61	10,15

Statement of cash flows

for the six months ended 31 December 2012

	Unaudited Dec 2012 R'000	Unaudited Dec 2011 R'000	Audited June 2012 R'000
Cash flows from operating activities			
Cash generated from operations	174 702	118 772	275 121
Finance income received	228	208	1 214
Finance costs paid	(66 127)	(80 179)	(177 919)
Taxation	(84)	–	–
Distribution to unitholders	(62 052)	(72 998)	(136 235)
Net cash inflow/(outflow) from operating activities	46 667	(34 197)	(37 819)
Cash flows from investing activities			
Acquisition and development of investment properties	(14 486)	(67 932)	(75 257)
Properties held for trading	(722)	(1 008)	(2 040)
Acquisition of furniture and equipment	(147)	–	(35)
Dividends received from associate	125	–	–
Loan from associate	–	60	60
Net cash outflow from investing activities	(15 230)	(68 880)	(77 272)
Cash flows from financing activities			
Proceeds from the issue of linked units	–	–	530 280
Share issue expenses paid	–	–	(10 149)
Interest-bearing liabilities (repaid)/raised	(38 898)	99 518	(380 815)
Net cash (outflow)/inflow from financing activities	(38 898)	99 518	139 316
Net (decrease)/increase in cash and cash equivalents	(7 461)	(3 559)	24 225
Cash and cash equivalents at beginning of year	15 442	(8 783)	(8 783)
Cash and cash equivalents at end of year	7 981	(12 342)	15 442

Statement of changes in equity

for the six months ended 31 December 2012

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
Balance at 1 July 2011	18	342 844	123 718	70 575	537 155
Loss/Total comprehensive loss for the period	–	–	(18 973)	–	(18 973)
Transfer to fair value reserve – interest rate swaps	–	–	19 104	(19 104)	–
Balance at 31 December 2011	18	342 844	123 849	51 471	518 182
Balance at 1 July 2012	25	392 102	115 278	(136 522)	370 883
Loss/Total comprehensive loss for the year	–	–	(403)	–	(403)
Transfer to fair value reserve – interest rate swaps	–	–	(2 204)	2 204	–
Balance at 31 December 2012	25	392 102	112 671	(134 318)	370 480

Condensed segmental information

for the six months ended 31 December 2012

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

R'000	Fixed lease agreements	F&V lease agreements	Variable lease agreements	Head office	Total of all operating segments
***Statement of comprehensive income* – 31 December 2012**					
Segment revenue	61 986	104 360	7 611	–	173 957
Expenditure	–	–	–	(14 591)	(14 591)
Segment results	61 986	104 360	7 611	(14 591)	159 366
***Statement of comprehensive income* – 31 December 2011**					
Segment revenue	60 925	93 889	5 744	–	160 558
Expenditure	(4 829)	–	–	(12 516)	(17 345)
Segment results	56 096	93 889	5 744	(12 516)	143 213
Statement of financial position – 31 December 2012					
Non-current assets					
Investment properties	1 044 666	2 362 601	251 040	–	3 658 307
Current assets					
Non-current assets held for sale	–	218 034	–	–	218 034
Trade receivables	2 796	7 696	–	11 446	21 938
Segment assets	1 047 462	2 588 331	251 040	11 446	3 898 279
Statement of financial position – 31 December 2011					
Non-current assets					
Investment properties	1 110 349	2 645 625	257 708	–	4 013 682
Current assets					
Trade and other receivables	13 424	14 985	(88)	10 565	38 886
Segment assets	1 123 773	2 660 610	257 620	10 565	4 052 568