

# Hospitality

## PROPERTY FUND

### Hospitality Property Fund Limited

(Incorporated in the Republic of South Africa)  
(Registration number 2005/014211/06)  
JSE code for A-linked units: HPA ISIN: ZAE00076790  
JSE code for B-linked units: HPB ISIN: ZAE00076808  
("Hospitality" or "the Fund" or "the company")

- Interim distribution per A-linked unit 54,72c per distribution structure
- Interim distribution per B-linked unit 92,04c up 13,4%
- Property acquisitions total R416 million
- Development projects completed total R314 million

## Unaudited Interim Results

for the six months ended 31 December 2008 and interest payment declaration

### Comments

#### 1. Introduction

Hospitality Property Fund Limited is a property loan stock company that invests exclusively in hotel and leisure properties. The Fund's units in issue comprise A- and B-linked units with A-linked units having a preferential claim to earnings with capped growth, whilst the B-linked units receive the balance of earnings.

#### 2. Results

The A-linked units distribution amounts to 54,72c up 5% year-on-year which is in accordance with the Fund's distribution structure. The B-linked unit distribution is 92,04c, which represents a 13,4% year-on-year increase. This has been achieved despite a weakening economic climate and a challenging trading environment over the past few months.

The following table reflects the financial results for the 6-month period to 31 December 2008 compared to the corresponding period in 2007.

##### Period ended 31 December

	2008 (R'000)	2007 (R'000)	Variance (%)
Contractual Rental	126 756	94 141	34,6
Fund Expenses	(14 758)	(12 395)	19,1
Net Finance Costs	(21 606)	(7 944)	171,9
Profit before debenture interest	90 392	73 802	22,5
Recoupment of debenture interest	-	8 278	(100,0)
Debt Interest	(90 392)	(82 080)	10,1
Distribution - A-linked unit	(33 702)	(32 097)	5,0
Distribution - B-linked unit	(56 690)	(49 983)	13,4
Distribution - A-linked unit (cents)	54,72	52,11	5,0
Distribution - B-linked unit (cents)	92,04	81,15	13,4

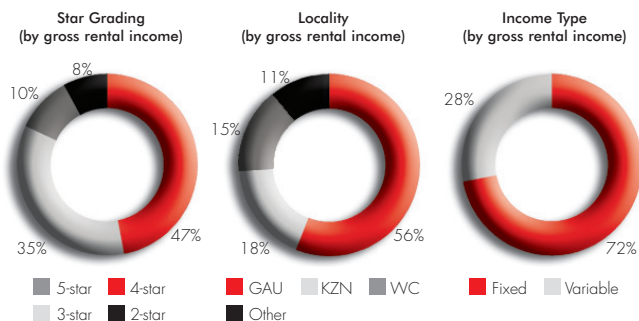
The Fund derived some 72% of its lease income from fixed rental and 28% from variable rental. The fixed lease agreements have CPIX linked escalations while the variable rentals are influenced by the profitability of the hotel operations. The underlying hotel performance figures are currently being affected by the slowdown in the general economy and in particular by reduced corporate spend on travel and accommodation. Management has critically reviewed the cost structures of hotels contributing variable rental and implemented measures to maintain efficiencies.

#### 3. Property Portfolio

The Fund's portfolio comprises interests in 23 hotel and resort properties in South Africa. As at 31 December 2008 the value of the investment portfolio was R3,1 billion. The portfolio is segmented into three lease types, namely: fixed lease properties, C-Corp lease properties and variable lease properties.

Rentals under fixed lease agreements are determined by normal contractual lease terms, with inflation linked annual escalations. C-Corp lease agreements comprise approximately 50% initial fixed lease rental, with the remaining being a variable rental equivalent to 90% of the hotel's EBITDA (earnings before interest, tax, depreciation and amortisation) after deducting the fixed lease portion. Variable lease agreements consist of rentals based on EBITDA from the property's underlying operations.

Throughout the trading period all of the properties were fully let. The average lease expiry is 8,1 years.



#### 4. Acquisitions

The Fund took transfer of the 301-key Holiday Inn Sandton - Rivonia Road, on 26 September 2008. The total cost of the acquisition was R410 million. During the reporting period the Fund also acquired an additional interest in Champagne Sports Resort for a total sum of R6,4 million.

#### 5. Development and Capital Projects

The redevelopment of The Rosebank has been completed at an approximate cost of R314 million. It is expected that the works at the Mount Grace Country House and Spa will be completed towards the end of the financial year within the budgeted cost of R140 million. Refurbishments at the three properties in Richards Bay and The Winkler hotel are on track and are anticipated to be completed during the course of the second half of this financial year.

The Fund is considering the refurbishment and 30 room expansion of the Imperial Hotel in Pietermaritzburg at an anticipated cost of R35 million. To avoid possible disruption to operations the refurbishments of the Protea Hotel Victoria Junction in Cape Town and Protea Hotel Marine in Port Elizabeth have been postponed until after the World Cup in 2010.

#### 6. Borrowings

The Fund's weighted average cost of debt for the six-month period was 9,89% and the gearing ratio was 30,2% of total property value.

During the calendar year 2008, the Fund restructured its borrowings by entering into various interest-rate swap agreements as detailed below. In compliance with International Financial Reporting Standards (IFRS), these swap agreements have been valued on a mark-to-market basis and a fair value adjustment of R129,6 million has been charged to the income statement resulting in a derivative liability of R88,8 million compared to an asset of R40,8 million at June 2008. This fair value adjustment has no effect on the distribution to linked unitholders but adversely affects both the earnings and headline earnings and translates into a loss for the period. Also, as a result of this adjustment the net asset value per combined linked unit decreased by 6,7% to R14,61 over the six month period.

	All-in Fixed Rate	Commencement Date	Maturity Date
R253 million*	10,45%	April 2008	April 2012
R150 million	11,45%	August 2008	August 2013
R150 million**	11,15%	December 2008	December 2011
R249 million***	11,97%	September 2008	August 2015
R170 million	11,33%	September 2008	August 2018

\*extendable at the option of the funder to April 2014  
\*\*extendable at the option of the funder to December 2013  
\*\*\*step up swap structure - weighted average rate

#### 7. Directorate

As announced to unitholders on 2 February 2009, Mr Andrew Rogers, the former Chief Operating Officer of Hospitality and an Executive Director of the Board has been appointed as Deputy Chief Executive Officer and Mr Yousef Aminzadeh has resigned as Deputy Chief Executive Officer of the Fund. Mr Aminzadeh will remain an Executive Director of Hospitality.

#### 8. Unitholders

During the six-month period some 8% of the A-linked units and 26% of the B-linked units were traded. The Fund has a BEE ownership component of 22,6%.

#### 9. Prospects

South Africa's economic outlook has changed considerably during the latter part of the reporting period. Economic forecasts indicate that inflationary pressures are likely to slow during the second half of the current financial year setting the tone for further easing of monetary policy. Nevertheless, consumer and corporate expenditure are expected to remain under pressure in the short term. However, the medium to long term outlook is set to improve with events in 2010 and the Fund's enhanced hotel offerings.

#### 10. Payments of Debenture Interest

Unitholders will receive debenture interest payment number 6 for the six-month period ended December 2008, of 54,72c per A-linked unit and 92,04c per B-linked unit.

	2009
Last day to trade cum interest	Friday, 6 March
Linked units will trade ex-interest	Monday, 9 March
Record date	Friday, 13 March
Payment date	Monday, 16 March

Unitholders may not dematerialise or rematerialise their linked units between Monday, 9 March 2009 and Friday, 13 March 2009, both days inclusive.

#### BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standard IAS34 "Interim Financial Reporting" and the requirements of the Companies Act of South Africa (Act 61 of 1973) as amended.

The accounting policies are consistent with those applied in the most recent audited financial statements.

The financial statements are prepared on the historic cost basis, except for investment properties and derivatives which are measured at fair value. The significant accounting policies are as follows:

- Investment property is initially recognised at cost including transaction costs. Subsequent to initial measurement, investment property is measured at fair value. Gains or losses arising from changes in fair value are included in net profit or loss for the period in which they arise. These gains or losses are transferred to a fair value reserve as they are not available for distribution.
- Interest bearing liabilities and debenture capital are measured at amortised cost.
- Revenue comprises rental income from the letting of investment property and is accounted for on a straight-line basis over the period of the lease in terms of IAS 17.
- Deferred taxation on the fair value adjustment of investment properties has been calculated at 14% on land value and 28% on buildings.

By order of the Board

T E Sewell  
(Chairman)

G A Nelson  
(Chief Executive Officer)

18 February 2009

**Directors:** T E Sewell (Chairman)\* †, G A Nelson (CEO), Y Aminzadeh (Dutch), R A Smaal, K H AbdulKamim\* †, Z N Kubekeli\* †, B M Madumise\* †, W J Midgley\*, A S Rogers (Deputy CEO), W C Ross\* † (\*Non-Executive, †Independent)

**Registered Office:** "3 on Glenhove", Cnr Tottenham Avenue and Glenhove Road, Melrose Estate, 2196  
Tel: +27 11 994 6320 Fax: +27 11 994 6321 Email: info@hpf.co.za Web: www.hpf.co.za

### Financial results

#### Income statement

for the six months ended 31 December 2008

	Unaudited 31 Dec 2008 R'000	Unaudited 31 Dec 2007 R'000	Audited 30 June 2008 R'000
<b>Revenue</b>	<b>128 929</b>	<b>95 803</b>	<b>200 594</b>
Rental income - contractual	126 756	94 141	196 230
- straightline accrual	2 173	1 662	4 364
<b>Expenditure</b>	<b>(14 758)</b>	<b>(12 395)</b>	<b>(26 851)</b>
Property and other operating expenses	(14 758)	(12 395)	(26 851)
<b>Operating profit</b>	<b>114 171</b>	<b>83 408</b>	<b>173 743</b>
<b>Net finance cost</b>	<b>(21 606)</b>	<b>(7 944)</b>	<b>(10 345)</b>
Finance income	16 245	10 670	24 022
Finance costs	(37 851)	(18 614)	(34 367)

<b>Profit before debenture interest, fair value adjustments and taxation</b>	<b>92 565</b>	<b>75 464</b>	<b>163 398</b>
Recoupment of debenture interest	-	8 278	8 278
Debt interest	(90 392)	(82 080)	(167 312)
<b>Profit before fair value adjustments and taxation</b>	<b>2 173</b>	<b>1 662</b>	<b>4 364</b>
<b>Fair value adjustments</b>	<b>(131 773)</b>	<b>(1 394)</b>	<b>295 096</b>
Revaluation of investment properties	-	-	269 149
Straightline rental income accrual	(2 173)	(1 662)	(4 364)
Interest-rate swaps	(129 600)	268	30 311
<b>(Loss)/profit before taxation</b>	<b>(129 600)</b>	<b>268</b>	<b>299 460</b>
<b>Taxation</b>	<b>-</b>	<b>-</b>	<b>(71 017)</b>
<b>(Loss)/profit for the period</b>	<b>(129 600)</b>	<b>268</b>	<b>228 443</b>

#### Reconciliation between earnings, headline earnings and distributable earnings

<b>(Loss)/profit for the period</b>	<b>(129 600)</b>	<b>268</b>	<b>228 443</b>
<b>Adjustments:</b>			
Debt interest	90 392	82 080	167 312
<b>(Loss)/earnings (linked units)</b>	<b>(39 208)</b>	<b>82 348</b>	<b>395 755</b>
<b>Adjustments:</b>			
Fair value - investment properties revaluation (net of taxation)	-	-	(198 132)
Fair value - straight line rental income	2 173	1 662	4 364
<b>Headline (loss)/earnings (linked units)</b>	<b>(37 035)</b>	<b>84 010</b>	<b>201 987</b>
Fair value - interest rate swaps	129 600	(268)	(30 311)
Straight line rental income	(2 173)	(1 662)	(4 364)
<b>Distributable earnings</b>	<b>90 392</b>	<b>82 080</b>	<b>167 312</b>

	A-linked unit	B-linked unit	Weighted average
<b>Number of units</b>			
A-linked unit	61 591 087	61 591 087	61 591 087
B-linked unit	61 591 087	61 591 087	61 591 087
<b>Weighted average number of units</b>			
A-linked unit	61 591 087	51 737 923	56 637 584
B-linked unit	61 591 087	51 737 923	56 637 584

	A-linked unit	B-linked unit	Weighted average
<b>Distribution per linked unit (cents)</b>			
A-linked unit	54,72	52,11	105,49
- Interim	54,72	52,11	52,11
- Final	-	-	53,38
B-linked unit	92,04	81,15	166,16
- Interim	92,04	81,15	81,15
- Final	-	-	85,01
<b>Total</b>	<b>146,76</b>	<b>133,26</b>	<b>271,65</b>

	A-linked unit	B-linked unit	Weighted average
<b>(Loss)/earnings per linked units (cents)</b>			
A-linked unit	(31,83)	79,58	349,38
B-linked unit	(31,83)	79,58	349,38
<b>Total</b>	<b>(63,66)</b>	<b>159,16</b>	<b>698,76</b>

	A-linked unit	B-linked unit	Weighted average
<b>Headline (loss)/earnings per linked unit and diluted headline (loss)/earnings per linked unit (cents)</b>			
A-linked unit	(30,07)	81,19	178,32
B-linked unit	(30,07)	81,19	178,32
<b>Total</b>	<b>(60,14)</b>	<b>162,38</b>	<b>356,64</b>

	A-linked unit	B-linked unit	Weighted average
<b>(Loss)/earnings and diluted (loss)/earnings per ordinary share (cents)</b>			
A-linked unit	(105,21)	0,26	201,67

#### Balance sheet

at 31 December 2008

	Unaudited 31 Dec 2008 R'000	Unaudited 31 Dec 2007 R'000	Audited 30 June 2008 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>3 075 244</b>	<b>1 930 491</b>	<b>2 300 495</b>
Investment properties	3 063 095	1 912 445	2 249 704
Straightline rent income accrual	12 149	7 274	9 976
Derivative asset	-	10 772	40 815
<b>Current assets</b>	<b>50 927</b>	<b>224 882</b>	<b>207 128</b>
Trade and other receivables	22 873	18 393	17 522
Cash and cash equivalents	28 054	206 489	189 606
<b>Total assets</b>	<b>3 126 171</b>	<b>2 155 373</b>	<b>2 507 623</b>

#### EQUITY AND LIABILITIES

<b>Equity</b>	<b>641 390</b>	<b>542 815</b>	<b>770 990</b>
Share capital and share premium	247 148	247 148	247 148
Retained earnings	980	6 477	980
Fair value reserve	393 262	289 190	522 862
<b>Non-current liabilities</b>	<b>2 360 716</b>	<b>1 524 552</b>	<b>1 624 462</b>
Debentures	1 157 912	1 157 912	1 157 912
Interest-bearing liabilities	927 195	250 833	279 726
Derivative liability	88 785	-	-
Deferred taxation	186 824	115 807	186 824
<b>Current liabilities</b>	<b>124 065</b>	<b>88 006</b>	<b>112 171</b>
Trade and other payables	33 673	5 926	26 935
Debt interest payable	90 392	82 080	85 236
<b>Total equity and liabilities</b>	<b>3 126 171</b>	<b>2 155 373</b>	<b>2 507 623</b>

#### Net asset value per linked unit (Rands)

A-linked unit	14,61	13,81	15,66
B-linked unit	14,61	13,81	15,66

#### Statements of changes in equity

for the period ended 31 December 2008

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
Balance at 1 July 2007	9	64 881	4 815	290 584	360 289
Issue of ordinary shares	3	182 255	-	-	182 258
Profit for the year/total income and expenses for the year	-	-	268	268	268
Transfer (from)/to fair value reserve - straightline rental income	-	-	1 662	(1 662)	-
Transfer to/(from) fair value reserve - interest rate swaps	-	-	(268)	268	-
<b>Balance at 31 December 2007</b>	<b>12</b>	<b>247 136</b>	<b>6 477</b>	<b>289 190</b>	<b>542 815</b>
Balance at 1 July 2008	12	247 136	980	522 862	770 990
(Loss)/profit for the year/total income and expenses for the period	-	-	(129 600)	(129 600)	(129 600)
Transfer (from)/to fair value reserve - interest rate swaps	-	-	129 600	(129 600)	-
<b>Balance at 31 December 2008</b>	<b>12</b>	<b>247 136</b>	<b>980</b>	<b>393 262</b>	<b>641 390</b>

#### Condensed cash flow statement

for the period ended 31 December 2008

	Unaudited 31 Dec 2008 R'000	Unaudited 31 Dec 2007 R'000	Audited 30 June 2008 R'000
<b>Net cash inflow/(outflow) from operating activities</b>	<b>6 543</b>	<b>9 144</b>	<b>(6 146)</b>
Cash generated from operations	113 385	73 060	133 969
Finance income received	16 245	10 670	24 022