



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

REVIEWED RESULTS FOR THE PERIOD ENDED 30 JUNE 2006

- **4½ Month** Trading Period
- Distribution per A-linked unit 37.40c **per forecast**
- Distribution per B-linked unit 45.12c **up 17.6%**
- NAV increased by **15.7%**
- **24.2%** Effective Gearing Ratio

www.hpf.co.za

COMMENTS

1. INTRODUCTION

Hospitality Property Fund listed on the JSE Limited on the 16th of February 2006. The Fund is the first specialised property loan stock company (PLS) investing in the hotels and leisure sector, providing investors with exposure to both the property and hospitality industries.

The Fund's units in issue comprise A- and B-linked units, with A-linked units having a preferential claim to earnings, whilst the B-linked units receive the balance of the earnings.

2. RESULTS

The prospectus forecast assumed an effective date of 1 February 2006 for transfer of all properties and listing of the Fund. Delays in the transfer of certain properties resulted in an actual listing date of 16 February 2006. As a result an adjusted prospectus forecast (APF) reflecting actual property transfer and listing dates was prepared as a basis for comparison.

4½-Month Trading Period	Actual	Adjusted Prospectus Forecast	Variance
	(R'000)	(R'000)	%
Contractual rental income	47 193	43 607	8.2
Fund expenses	(6 356)	(5 003)	(27.0)
Interest paid	(10 180)	(11 200)	9.1
Listing expenses	(1 604)	(4 990)	67.9
Profit before debenture interest	29 053	22 414	29.6
Debenture interest	(29 851)	(27 403)	8.9
Distribution – "A-linked unit"	(13 530)	(13 530)	0.0
Distribution – "B-linked unit"	(16 321)	(13 873)	17.6
Distribution per "A-linked unit" (cents)	37.40	37.40	0.0
Distribution per "B-linked unit" (cents)	45.12	38.35	17.6

For the 4½-month period the distribution per A-linked unit amounted to 37.40 cents in line with the APF translating to an annualised yield of 9.68% on issue price. The distribution per B-linked unit was 45.12 cents, a 17.6% increase over the APF distribution forecast, equating to an annualised yield of 11.68% on issue price.

The growth in distribution is mainly as a result of increased rental income received from the properties under variable rental structures. During the period, operational profitability increased due to favourable trading conditions, implementation of effective hotel and asset management structures, critical review of expenditure and a focus on operating efficiencies.

3. REGULATORY REPORTING

Notwithstanding the above like-for-like comparison, in terms of regulatory reporting requirements, the Income Statement below reports on an actual 4½-month period compared to a prospectus forecast of a five-month period.

4. PROPERTY PORTFOLIO

The Fund's portfolio comprises interests in 16 hotel and resort properties and can be segmented into three lease types, namely: fixed leases, C-Corp leases and variable leases.

Rentals under fixed lease agreements are determined by normal contractual lease terms with inflation-linked annual escalations. C-Corp lease agreements comprise approximately 50% fixed lease

rental, with the remaining being a variable rental equivalent to 90% of the hotel's earnings before income tax, depreciation and amortisation (EBITDA) after deducting the fixed lease portion. Variable lease agreements comprise rentals based on EBITDA, from the properties' underlying operations. The Birchwood Executive Hotel & Conference Centre, initially under a C-Corp lease, was converted to a fixed lease agreement effective from transfer.

Contractual rental income contribution to the Fund per lease type:

	R'000	% of income
Fixed Lease Properties	29 447	62.4
C-Corp Lease Properties	13 693	29.0
Variable Lease Properties	4 053	8.6
Rental income	47 193	100.0

Throughout the trading period all properties in the portfolio were fully let. The average lease period is nine years with the first lease expiring in two and a half years.

5. VALUATION OF PROPERTIES

Independent valuers valued the Fund's portfolio at year-end at R1.161 billion. Given the historic property cost at listing of R997 million, this amounted to a R164 million revaluation gain. The resulting net asset value (NAV) totalled 1 142 cents per unit, which represents an increase of 15.7% from the listing NAV of 987 cents per unit.

At 30 June 2006 the combined units were trading at a 7.2% discount to NAV. This compares to an aggregate 27% premium to NAV for the listed property sector at the same date.

The Fund's NAV increase is as a result of the favourable historic purchase price and the current buoyant conditions in both the property and hospitality industries.

6. BORROWINGS

The Fund's weighted average cost of debt is currently 9.19% and the effective gearing ratio is 24.2%. An interest rate swap has been entered on interest bearing liabilities of R253 million at an all-in-rate of 9.08% per annum, expiring on 10 February 2009. The Fund currently has facilities of R175 million available for future investment opportunities.

7. BEE CREDENTIALS

The Fund has a BEE ownership component of 12.5% of market capitalisation and is considering initiatives to further enhance this.

8. CITY LODGE TRANSACTION

During this reporting period the Fund evaluated the possibility of acquiring the City Lodge Group's property portfolio and as a result a cautionary announcement was made to unitholders. Based on feedback from the shareholders of City Lodge and further discussions with the management of City Lodge, the Fund's Board resolved not to proceed with the proposed acquisition at that stage.

9. POST-BALANCE SHEET EVENTS

The Fund is currently in negotiations in respect of several potential property acquisitions, details of which will be announced in due course.

10. PROSPECTS

The Fund is seeking to implement a number of development and refurbishment opportunities within the existing portfolio. Operating performance of the C-Corp and variable lease properties is continuously being improved as a result of effective asset management. To this end the Board is confident that the forecast as set out in the listing prospectus will be achieved.

11. PAYMENT OF DEBENTURE INTEREST

Unitholders will receive debenture interest payment number 1, for the 4½-month period ended 30 June 2006, of 37.40 cents per A-linked unit and 45.12 cents per B-linked unit.

	2006
Last day to trade <i>cum</i> interest	Friday, 8 September
Linked units will trade ex-interest	Monday, 11 September
Record date	Friday, 15 September
Payment date	Monday, 18 September

Unitholders may not dematerialise or rematerialise their linked units between Monday, 11 September 2006 and Friday, 15 September 2006, both dates inclusive.

By order of the Board

T E Sewell
Chairman

B Hutchison
Chief Executive Officer

24 August 2006

STATEMENT OF CHANGES IN EQUITY

for the period ended 30 June 2006

	Share capital	Share premium	Retained income	Fair value reserve	Total
	R'000	R'000	R'000	R'000	R'000
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Profit for the period			106 839		106 839
Transfer to/(from) fair value reserve – revaluation of investment properties (net of deferred tax)			(116 186)	116 186	
Transfer to/(from) fair value reserve – straight-line rental income			1 777	(1 777)	
Transfer to/(from) fair value reserve – interest rate swaps			8 550	(8 550)	
Balance at 30 June 2006	7	39 457	980	105 859	146 303

INCOME STATEMENTS

for the period ended 30 June 2006

4½-months	5 months
	Unaudited

BALANCE SHEET

At 30 June 2006

Reviewed
Actual

CONDENSED CASH FLOW STATEMENT

for the period ended 30 June 2006

Reviewed
Actual

	4 1/2-months	5 months
	Reviewed Actual 2006 R'000	Unaudited Prospectus forecast 2006 R'000
Revenue	48 970	47 709
Rental income – contractual	47 193	47 709
– straight-line accrual	1 777	–
Expenditure	(6 355)	(5 498)
Property and other operating expenses	(6 355)	(5 498)
Operating profit	42 615	42 211
Listing expenses	(1 604)	(4 990)
Net finance costs	(40 031)	(42 211)
Received	1 586	–
Paid	(11 766)	(12 168)
Debt interest	(29 851)	(30 043)
Profit/(loss) before fair value adjustments and taxation	980	(4 990)
Fair value adjustments	153 315	–
Revaluation of investment properties	163 642	–
Straight-line rental income accrual	(1 777)	–
Interest rate swaps	(8 550)	–
Profit/(loss) before taxation	154 295	(4 990)
Taxation	(47 456)	–
Profit/(loss) for the period	106 839	(4 990)
Reconciliation between earnings, headline earnings and distributable earnings:		
Profit/(loss) for period	106 839	(4 990)
<i>Adjustments:</i>		
Debt interest	29 851	30 043
Earnings	136 690	25 053
<i>Adjustments:</i>		
Fair value – investment properties revaluation (net of deferred tax)	(116 186)	–
Fair value – straight-line rental income	1 777	–
Headline earnings	22 281	25 053
Listing expenses not included in distribution	797	4 990
Fair value – interest rate swaps	8 550	–
Straight-line rental income	(1 777)	–
Distributable earnings	29 851	30 043
Number of A-linked units	36 174 723	36 174 723
Number of B-linked units	36 174 723	36 174 723
Distribution per A-linked unit (cents)	37.40	40.00
Distribution per B-linked unit (cents)	45.12	43.00
Total distribution per unit (cents)	82.52	83.00
Earnings per A-linked unit (cents)	188.93	35.00
Earnings per B-linked unit (cents)	188.93	35.00
Total earnings per unit (cents)	377.86	70.00
Headline earnings per A-linked unit (cents)	30.80	35.00
Headline earnings per B-linked unit (cents)	30.80	35.00
Total headline earnings per unit (cents)	61.60	70.00
Earnings/(loss) per share (cents)	147.67	(13.79)

	Reviewed Actual 2006 R'000	
ASSETS		
Non-current assets	1 161 144	
Investment properties	1 159 367	
Straight-line rental income accrual	1 777	
Current assets	21 614	
Trade and other receivables	17 260	
Cash and cash equivalents	4 354	
Total assets	1 182 758	
EQUITY AND LIABILITIES		
Equity	146 303	
Share capital and share premium	39 464	
Retained income	980	
Fair value reserve	105 859	
Non-current liabilities	987 363	
Debentures	680 085	
Interest bearing liabilities	251 272	
Derivative liability	8 550	
Deferred taxation	47 456	
Current liabilities	49 092	
Trade and other payables	19 241	
Debt interest payable	29 851	
Total equity and liabilities	1 182 758	
	A units	B Units
Net asset value per linked unit	R11.42	R11.42

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa. KPMG Inc. has reviewed the financial statements and their unqualified review opinion is available for inspection at the Fund's registered office.

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 debt 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 29%.

	Reviewed Actual 2006 R000
Net cash inflow from operating activities	31 035
Cash generated from operations	41 215
Interest received	1 586
Interest paid	(11 766)
Net cash outflow from investing activities	(997 502)
Acquisition of investment properties	(997 502)
Net cash inflow from financing activities	970 821
Proceeds from the issue of linked units	723 494
Share issue expenses	(3 945)
Interest bearing liabilities raised	251 272
Cash and cash equivalents at end of period	4 354

CONDENSED SEGMENTAL INFORMATION

	Fixed lease agreements R'000	C-Corp lease agreements R'000	Variable lease agreements R'000	Corporate R'000	Total R'000
Income statement					
Segment revenue	31 224	13 693	4 053		48 970
Expenditure				(6 355)	(6 355)
Segment operating results	31 224	13 693	4 053	(6 355)	42 615
Listing expenses				(1 604)	(1 604)
Net finance costs				(40 031)	(40 031)
Profit before fair value adjustments and taxation	31 224	13 693	4 053	(47 990)	980
Fair value adjustments	114 853	61 028	13 402	(35 968)	153 315
Profit before taxation	146 077	74 721	17 455	(83 958)	154 295
Taxation				(47 456)	(47 456)
Segment result	146 077	74 721	17 455	(131 414)	106 839
Balance sheet					
Non-current assets					
Investment properties*	732 725	358 350	70 069		1 161 144
Current assets	1 761	4 893	1 175	13 785	21 614
Segment assets	734 486	363 243	71 244	13 785	1 182 758
LIABILITIES					
Non-current liabilities				987 363	987 363
Current liabilities	14 142			34 950	49 092
Segment liabilities	14 142	–	–	1 022 313	1 036 455

*Acquisition of segment assets/capital expenditure for the period.

Directors: T E Sewell (Chairman)*+, B Hutchison (CEO), R Asmal, K H Abdul-Karrim*+, Y Aminzadeh (Dutch)*, M S Hoosen*+, B M Madumise*+, G A Nelson*, J J P G Bass (British)*
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