


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")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

- Distribution per A-linked unit 49.63c **per forecast**
- Distribution per B-linked unit 68.72c **up 15.9%**
- Black Economic Empowerment (BEE) shareholding **doubles to 30.4%**
- Acquisitions total **R204 million**

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COMMENTS

1. RESULTS

Distributable earnings per A-linked unit amounted to 49.63c, as set out in the listing prospectus forecast. The distributable earnings per B-linked unit was 68.72c, a 15.9% increase over the prospectus forecast.

The predominant factor contributing to the positive variance in distributable earnings was an increase in rental income received from the variable rental structures. The current trading climate in the hospitality industry is buoyant and is characterised by substantial growth in demand for hotel rooms. This, coupled with the continued focus on improving operating efficiencies within the hotel portfolio contributed to the strong performance.

2. PROPERTY PORTFOLIO

The Fund's portfolio comprises interests in 16 hotel and resort properties, which were independently valued at 30 June 2006 at R1.2 billion. The portfolio is 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% initial fixed lease rental, with the remaining being a variable rental equivalent to 90% of the hotel's earnings before interest, tax, depreciation and amortisation (EBITDA) after deducting the fixed lease portion. Variable lease agreements comprise rentals based on EBITDA, from the properties' underlying operations.

	R'000	% of income
Fixed Lease Properties	39 521	63.7
C-Corp Lease Properties	17 159	27.7
Variable Lease Properties	5 342	8.6
Rental income	62 022	100.0

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

3. ACQUISITIONS

As announced on 18 December 2006, the acquisitions of four properties (Protea Victoria Junction Hotel, Richards Hotel, Bayshore Inn and Imperial Hotel) were concluded, amounting to a total purchase consideration of R204 million at an estimated combined forward yield of 12.2%. The Protea Victoria Junction Hotel, Richards Hotel and the Bayshore Inn were transferred during February 2007, whilst the transfer of the Imperial Hotel is expected during March 2007.

	Current	Post Acquisition	% Change
Number of Hotels	16	20	25.0
Number of Rooms	2 131	2 583	21.2
Investment Properties (R millions)	1 169	1 373	17.5
Market Capitalisation (R millions)	973	1 178	21.1

4. BEE INITIATIVES

Hospitality subscribes to the provisions of the Property Sector Transformation Charter. In our announcement dated 18 December 2006, unitholders were advised that the aforementioned acquisitions formed part of the implementation of Hospitality's overall BEE Initiative and its objective of introducing meaningful participation of Historically Disadvantaged South Africans (HDSAs) to the listed property sector. The units issued in respect of the acquisitions were renounced in favour of Nobuntu Investments II (Pty) Ltd, a majority black-owned company. Following the conclusion of the transaction, Hospitality's BEE ownership will double to 30.4% of units in issue.

5. BORROWINGS

The Fund's weighted average cost of debt for the reporting period was 9.2% and the effective gearing ratio was 25.2%. An interest rate swap has been entered into on interest bearing liabilities of R253 million, expiring on 10 February 2009. Towards the end of the reporting period the Fund consolidated its debt facility with Absa Bank as sole lender, resulting in a reduction of its margin. This benefit will be realised in the current period. The all-in-rate of the swap at the end of the reporting period is 8.83%. At 31 December 2006 the Fund had a facility of R192 million available for future investment opportunities.

6. DIRECTORATE

As announced to unitholders on 12 October 2006, Mr B Hutchison resigned as Chief Executive Officer (CEO) effective 31 October 2006 and was replaced by Mr G A Nelson as CEO and Mr Y Aminzadeh as Deputy CEO. Mr A S Rogers was appointed to the Board effective 1 February 2007 in the position of Chief Operating Officer.

7. PROSPECTS

The Fund continues to assess potential acquisitions and is seeking to implement several development and refurbishment opportunities within the existing portfolio. Given the continued favourable trading climate in the hospitality and property industries and the resulting growth in rental income, the Board is confident that the following forecast as set out in the trading update of 13 February 2007 will be achieved:

"An increase in distributable earnings of between 15% and 20% per B-linked units can be expected for the year ending 30 June 2007 compared to that set out in the prospectus forecast.

The above information has not been reviewed or reported on by the company's auditors."

8. PAYMENT OF DEBENTURE INTEREST

Unitholders will receive debenture interest payment number 2, for the six month period ended 31 December 2006, of 49.63c per A-linked unit and 68.72c per B-linked unit.

Last day to trade *cum* interest Friday, 9 March 2007

Linked units will trade *ex-interest* Monday, 12 March 2007

Record date Friday, 16 March 2007

Payment date Monday, 19 March 2007

Unitholders may not dematerialise or rematerialise their linked units between Monday, 12 March 2007 and Friday, 16 March 2007, both dates inclusive.

By order of the Board

T E Sewell

Chairman

G A Nelson

Chief Executive Officer

20 February 2007

STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2006

	Share capital R'000	Share premium R'000	Retained income R'000	Fair value reserve R'000	Total R'000
Balance at 1 July 2006	7	39 457	980	105 859	146 303
Profit for the period			16 026		16 026
Transfer to/(from) fair value reserve – straight-line rental income			2 133	(2 133)	
Transfer to/(from) fair value reserve – interest rate swaps			(16 026)	16 026	
Balance at 30 June 2006	7	39 457	3 113	119 752	162 329

INCOME STATEMENT

for the six months ended 31 December 2006

	Actual 2006 R'000	Prospectus Forecast 2006 R'000
Revenue	64 155	57 973
Rental income – contractual	62 022	57 973
– straight-line accrual	2 133	–
Expenditure	(7 017)	(6 729)
Property and other operating expenses	(7 017)	(6 729)
Operating profit	57 138	51 244
Net finance costs	(55 005)	(51 244)
Received	566	–
Paid	(12 759)	(11 839)

BALANCE SHEET

	31 December 2006 R'000	Audited 30 June 2006 R'000
ASSETS		
Non-current assets	1 172 632	1 161 144
Investment properties	1 168 722	1 159 367
Straight-line rental income accrual	3 910	1 777
Current assets	24 298	21 614
Trade and other receivables	11 175	17 260
Derivative asset	7 476	–
Cash and cash equivalents	5 647	4 354
Total assets	1 196 930	1 182 758
EQUITY AND LIABILITIES		
Equity	162 329	146 303

CONDENSED CASH FLOW STATEMENT

	31 December 2006 R'000	Audited 30 June 2006 R'000
Net cash inflow from operating activities	13 746	31 035
Cash generated from operations	55 790	41 215
Interest received	566	1 586
Interest paid	(12 759)	(11 766)
Debenture interest	(29 851)	–
Net cash outflow from investing activities	(11 488)	(997 502)
Acquisition of investment properties	(11 488)	(997 502)
Net cash inflow/(outflow) from financing activities	(965)	970 821
Interest bearing liabilities raised	(965)	251 272
Proceeds from the issue of linked units	–	723 494
Share issue expenses	–	(3 945)
Net increase in cash and cash equivalents	1 293	4 354

Received	566	-
Paid	(12 759)	(11 839)
Debt interest	(42 812)	(39 405)
Profit before fair value adjustments	2 133	-
Fair value adjustments	13 893	-
Straight-line rental income accrual	(2 133)	-
Interest rate swaps	16 026	-
Profit for the period	16 026	-
Reconciliation between earnings, headline earnings and distributable earnings:		
Profit for the period	16 026	-
Adjustments:		
Debt interest	42 812	39 405
Earnings	58 838	39 405
Adjustments:		
Fair value - straight-line rental income	2 133	-
Headline earnings	60 971	39 405
Fair value - interest rate swaps	(16 026)	-
Straight-line rental income	(2 133)	-
Distributable earnings	42 812	39 405
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)	49.63	49.63
Distribution per B-linked unit (cents)	68.72	59.30
Total distribution per combined unit	118.35	108.93
Earnings per A-linked unit (cents)	81.32	54.46
Earnings per B-linked unit (cents)	81.32	54.46
Total earnings per combined unit	162.62	108.92
Headline earnings per A-linked unit (cents)	84.27	54.46
Headline earnings per B-linked unit (cents)	84.27	54.46
Total headline earnings per combined unit	168.54	108.92
Earnings per share (cents)	44.30	-

EQUITY AND LIABILITIES

Equity	162 329	146 303
Share capital and share premium	39 464	39 464
Retained income	3 113	980
Fair value reserve	119 752	105 859
Non-current liabilities	977 848	987 363
Debentures	680 085	680 085
Derivative liability	-	8 550
Interest-bearing liabilities	250 307	251 272
Deferred taxation	47 456	47 456
Current liabilities	56 753	49 092
Trade and other payables	13 941	19 241
Debt interest payable	42 812	29 851
Total equity and liabilities	1 196 930	1 182 758
Net asset value per A linked unit (R)	11.64	11.42
Net asset value per B linked unit (R)	11.64	11.42

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with IAS 34, Interim Financial Reporting, and the requirements of the Companies Act of South Africa. The accounting policies applied are consistent with those in the annual financial statements for the period ended 30 June 2006.

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 fair value reserves 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 29%.

Proceeds from the issue of linked units	-	723 494
Share issue expenses	-	(3 945)
Net increase in cash and cash equivalents	1 293	4 354
Cash and cash equivalents at beginning of period	4 354	-
Cash and cash equivalents at end of the period	5 647	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	41 654	17 159	5 342		64 155
Expenditure				(7 017)	(7 017)
Segment operating results	41 654	17 159	5 342	(7 017)	57 138
Net finance cost				(55 005)	(55 005)
Profit before fair value adjustments	41 654	17 159	5 342	(62 022)	2 133
Fair value adjustments	(2 133)			16 026	13 893
Segment result	39 521	17 159	5 342	(45 996)	16 026
Balance sheet					
Non-current assets					
Investment properties*	741 845	360 718	70 069		1 172 632
Current assets	1 135	5 928	775	16 460	24 298
Segment assets	742 980	366 646	70 844	16 460	1 196 930
LIABILITIES					
Non-current liabilities				977 848	977 848
Current liabilities	10 794			45 959	56 753
Segment liabilities	10 794	-	-	1 023 807	1 034 601

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

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

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