

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: ZAE000076790
JSE code for B-linked units: HPB ISIN: ZAE000076808
("Hospitality" or "the Fund" or "the company")

- Distribution per B-linked unit 81.15c up 18,1%
- Property acquisitions R240 million
- Committed capital investments R470 million

UNAUDITED INTERIM RESULTS

for the six months ended 31 December 2007
and Interest Payment Declaration

COMMENTS

1. Introduction

Hospitality Property Fund is a property loan stock company, which invests in properties in the hotel and leisure industries. 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 favourable hospitality and property trading conditions resulted in significant growth in earnings. Distributions for the period amount to 52,11c per A-linked unit, which is in line with the company's distribution policy. The distribution per B-linked unit of 81,15c per B-linked unit, equates to an increase of 18,1% over the corresponding period in 2006.

The following table shows the actual performance for the period of July to December 2007 compared to the same period in 2006:

Period ended 31 December

	2007 (R'000)	2006 (R'000)	Variance (%)
Contractual rental income	94 141	62 022	51
Fund expenses	(12 395)	(7 017)	77
Net finance costs	(7 944)	(12 193)	(35)
Profit before debenture interest	73 802	42 812	72
Recoupment of debenture interest	8 278	-	-
Debt interest	(82 080)	(42 812)	92
Distribution - 'A linked unit'	(32 097)	(17 954)	79
Distribution - 'B linked unit'	(49 983)	(24 858)	101
Distribution - 'A linked unit' (cents)	52,11	49,63	5,0
Distribution - 'B linked unit' (cents)	81,15	68,72	18,1

The growth in rental income was predominantly as a result of increased rental income from properties under C-Corp and variable rental structures due to the favourable hospitality trading climate and continued improvements in operating efficiencies and performance. The acquisitions concluded during the period were overall yield enhancing. Net finance costs reduced substantially due to the cash raised in the rights issue not being fully utilised during the period.

3. Rights issue

The Fund successfully concluded a R500 million rights issue in October 2007 to fund various capital projects and acquisitions. 15 903 352 A-linked units and 15 903 352 B-linked units were placed in respect of the rights issue. The rights issue included a recoupment of debenture interest amounting to R8,3 million.

4. Property portfolio

The Fund's portfolio comprises interests in 22 hotel and resort properties in South Africa amounting to R1,9 billion. The net asset value (NAV) totalled R13,81 per linked unit. The combined units were trading at a premium of 21,70% to NAV at the end of the reporting period.

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 hotels' earnings before interest, tax, depreciation and amortisation (EBITDA) after deducting the fixed lease portion. Variable lease agreements comprise rentals based on EBITDA from the property's underlying operations.

Throughout the trading period all the properties were fully let. The average lease period is 8,4 years.

Gross Rental Income
by Lease Type

7%



Gross Rental Income
by Locality

19%



Gross Rental Income
by Type

36%



5. Acquisitions

During the reporting period the Fund acquired four property interests for a total consideration of R240 million, which properties were independently valued at R298 million, representing a valuation surplus of 24% on acquisition. These acquisitions included: the expansion to the Birchwood Hotel & Conference Centre, Hluhluwe Hotel & Safaris, the remaining 32% share in the Park Inn Greenmarket Square and the remaining 35% shareholding in the 90 units at the Radisson Hotel Waterfront. The acquisitions are forecast to be growth-enhancing to the Fund. In January 2008 the Fund acquired the ONEwellness branded spa at the Radisson Hotel Waterfront for a consideration of R14,5 million.

6. Cautionary announcement

Unitholders are reminded of the cautionary issued on 22 January 2008 relating to ongoing negotiations pertaining to a major acquisition.

7. Developments and capital projects

Hospitality has committed significant funds to the development and repositioning of a number of properties in the portfolio to strategically position these to maximise long-term growth. The combined capital value of the refurbishment, repositioning and expansion projects is estimated at R470 million.

The main development and capital projects which will be completed in the coming 18 months are as follows:

The Rosebank Hotel

This property is undergoing a major redevelopment and repositioning, with a total capital value of R254 million. Once completed, the full service hotel will comprise 316 rooms, several food and beverage outlets, substantial conference facilities and a spa. This development will be completed by the beginning of the next financial year.

Mount Grace Country House & Spa

This resort is in the process of being refurbished and expanded and will be repositioned as one of the top conference and leisure destinations in the country. The expansion will include an additional 40 rooms and villas, additional conference and food and beverage facilities and the expansion of the spa. The total investment is estimated at R134 million and the development will be completed towards the end of 2008.

Other capital projects

Refurbishment projects will commence shortly at The Winkler Hotel, The Richards Hotel, Protea Hotel Richards Bay and The Bayshore Inn. The combined investment in these properties is estimated at R83 million. Other projects currently under review are: the expansions of The Imperial Pietermaritzburg and Champagne Sports Resort, and refurbishments of Protea Hotel Victoria Junction, Protea Hotel Marine and the The Hazyview Hotel.

It is forecast that the operating earnings of the hotels will not be impacted during development. On aggregate, the developments are forecast to be initially yield neutral, yet growth-enhancing.

The Fund is implementing a business continuity programme across the portfolio to minimise the effect of power interruptions on the operating performance of the hotels.

8. Directorate

As announced to unitholders on 13 December 2007, Mr William Midgley was appointed as a non-executive director to the Board effective from 2 January 2008. The Board comprises a majority of non-executive directors, the majority of which are independent.

9. Borrowings

11. Prospects

The operating climate in the hospitality industry is buoyant and the Fund is well-placed to benefit from this. According to the Deloitte HotelBenchmark study, occupancies in South Africa remained relatively high, whilst average achieved room rates increased by 15% during the reporting period. The Fund is able to benefit from the growth in earnings through its variable rental structures, whilst effective hotel and asset management structures have contributed to increases in operating margins.

The investments in the Fund's existing properties will position the portfolio to take advantage of the favourable trading conditions in the hotel industry anticipated to continue over the next few years, particularly in the lead up to 2010. This should lead to sustained growth in the foreseeable future.

The Board expects distribution growth for the full financial year to remain robust.

12. Payments of debenture interest

Unitholders will receive debenture interest payment number 4 for the six-month period ended 31 December 2007, of 52,11c per A-linked unit and 81,15c per B-linked unit.

2008	
Last day to trade <i>cum</i> interest	Friday, 7 March
Linked units will trade <i>ex-interest</i>	Monday, 10 March
Record date	Friday, 14 March
Payment date	Monday, 17 March

Unitholders may not dematerialise or rematerialise their linked units between Monday, 10 March 2008 and Friday, 14 March 2008, both days inclusive.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), including IAS 34 and the requirements of the Companies Act of South Africa (Act 61 of 1973) as amended. The accounting policies applied are consistent with those in the annual financial statements for the year ended 30 June 2007.

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:

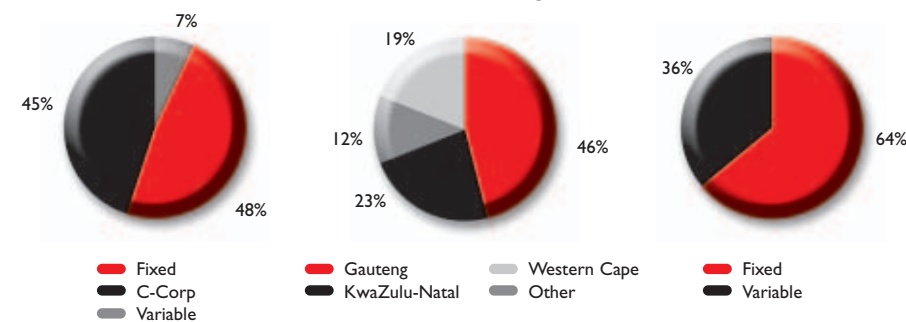
- Investment property is initially recognised at cost including transaction costs. Subsequent to initial measurement, investment property is measured at fair value. Gains or losses arising from changes in fair value are included in net profit or loss for the period in which they arise. These gains or 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 14,5% on land value and 29,0% on buildings.

By order of the Board

T E Sewell
(Chairman)

G A Nelson
(Chief Executive Officer)

21 February 2008



FINANCIAL RESULTS

Income statement

for the six months ended 31 December 2007

	Unaudited 31 Dec 2007 R'000	Unaudited 31 Dec 2006 R'000	Audited 30 June 2007 R'000
Revenue	95 803	64 155	142 391
Rental income – contractual	94 141	62 022	138 556
– straight-line accrual	1 662	2 133	3 835
Expenditure	(12 395)	(7 017)	(18 921)
Property and other operating expenses	(12 395)	(7 017)	(18 921)
Operating profit	83 408	57 138	123 470
Net finance cost	(7 944)	(12 193)	(24 206)
Finance income	10 670	566	4 240
Finance costs	(18 614)	(12 759)	(28 446)
Profit before debenture interest, fair value adjustments and taxation	75 464	44 945	99 264
Recoupment of debenture interest	8 278	–	3 356
Debenture interest	(82 080)	(42 812)	(98 785)
Profit before fair value adjustments	1 662	2 133	3 835
Fair value adjustments	(1 394)	13 893	253 076
Revaluation of investment properties	–	–	237 857
Straight-line rental income accrual	(1 662)	(2 133)	(3 835)
Interest rate swaps	268	16 026	19 054
Profit before taxation	268	16 026	256 911
Taxation	–	–	(68 351)
Profit for the period	268	16 026	188 560
Reconciliation between earnings, headline earnings and distributable earnings			
Profit for the period	268	16 026	188 560
Adjustments:			
Debenture interest	82 080	42 812	98 785
Earnings (linked units)	82 348	58 838	287 345
Adjustments:			
Fair value – investment properties revaluation (net of taxation)	–	–	(169 506)
Fair value – straight-line rental income	1 662	2 133	3 835
Headline earnings (linked units)	84 010	60 971	121 674
Fair value – interest rate swaps	(268)	(16 026)	(19 054)
Straight-line rental income	(1 662)	(2 133)	(3 835)
Distributable earnings	82 080	42 812	98 785
Number of units			
A-linked unit	61 591 087	36 174 723	45 687 735
B-linked unit	61 591 087	36 174 723	45 687 735
Weighted average number of units			
A-linked unit	51 737 923	36 174 723	39 530 070
B-linked unit	51 737 923	36 174 723	39 530 070
Distribution per linked unit (cents)			
A-linked unit	52,11	49,63	100,46
– Interim	52,11	49,63	49,63
– Final	–	–	50,83
B-linked unit	81,15	68,72	140,40
– Interim	81,15	68,72	68,72
– Final	–	–	71,68
	133,26	118,35	240,86
Earnings per linked unit (cents)			
A-linked unit	79,58	81,32	363,45
B-linked unit	79,58	81,32	363,45
	159,16	162,64	726,90
Headline earnings per linked unit (cents)			
A-linked unit	81,19	84,27	153,90
B-linked unit	81,19	84,27	153,90
	162,38	168,54	307,80
Earnings per share (cents)	0,26	44,30	238,50

Directors, the majority of which are independent.

9. Borrowings

The Fund's weighted average cost of debt for the reporting period was 9,26% and the effective gearing level was 13,2% at 31 December 2007. During the reporting period, net finance costs reduced substantially due to the cash raised in the rights issue not being fully utilised during the period.

10. Units in issue/liquidity

As at the end of the reporting period, 61 591 087 A-linked units and 61 591 087 B-linked units were in issue. During the course of this reporting period, an additional 15 903 352 both A- and B-linked units were issued in respect of the aforementioned rights issue. In terms of liquidity, an annualised 27% of the Fund's units in issue were traded during the six months ended 31 December 2007.

T E Sewell
(Chairman)

G A Nelson
(Chief Executive Officer)

21 February 2008

Directors: T E Sewell (Chairman)*+, G A Nelson (CEO), Y Aminzadeh (Deputy CEO) (Dutch), R Asmal, K H Abdul-Karrim**+, B M Madumise**+, W J Midgley*, A S Rogers, W C Ross**+
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Balance sheet

At 31 December 2007

	Unaudited 31 Dec 2007 R'000	Unaudited 31 Dec 2006 R'000	Audited 30 June 2007 R'000
ASSETS			
Non-current assets	1 930 491	1 180 108	1 678 863
Investment properties	1 912 445	1 168 722	1 662 747
Straight-line rent income accrual	7 274	3 910	5 612
Derivative asset	10 772	7 476	10 504
Current assets	224 882	16 822	20 970
Trade and other receivables	18 393	11 175	13 443
Cash and cash equivalents	206 489	5 647	7 527
Total assets	2 155 373	1 196 930	1 699 833
EQUITY AND LIABILITIES			
Equity	542 815	162 329	360 289
Share capital and share premium	247 148	39 464	64 890
Retained income	6 477	3 113	4 815
Fair value reserve	289 190	119 752	290 584
Non-current liabilities	1 524 552	977 848	1 225 306
Debentures	1 157 912	680 085	858 929
Interest bearing liabilities	250 833	250 307	250 570
Deferred taxation	115 807	47 456	115 807
Current liabilities	88 006	56 753	114 238
Trade and other payables	5 926	13 941	58 266
Debenture interest payable	82 080	42 812	55 972
Total equity and liabilities	2 155 373	1 196 930	1 699 833
Net asset value per linked unit (Rand)			
A-linked unit	13,81	11,64	13,34
B-linked unit	13,81	11,64	13,34

Statement of changes in equity

for the six months ended 31 December 2007

	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/total income and expenses for the period			16 026		16 026
Transfer from fair value reserve – straight-line rental income			2 133	(2 133)	–
Transfer to fair value reserve – interest rate swaps			(16 026)	16 026	–
Balance at 31 December 2006	7	39 457	3 113	119 752	162 329
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 period/ total income and expenses for the period			268		268
Transfer from fair value reserve – straight line rental income			1 662	(1 662)	–
Transfer to fair value reserve – interest rate swaps			(268)	268	–
Balance at 31 December 2007	12	247 136	6 477	289 190	542 815

Condensed cash flow statement

for the six months ended 31 December 2007

	Unaudited 31 Dec 2007 R'000	Unaudited 31 Dec 2006 R'000	Audited 30 June 2007 R'000
Net cash inflow from operating activities	9 144	13 746	68 963
Cash generated from operations	73 060	55 790	162 477
Finance income received	10 670	566	4 240
Finance costs paid	(18 614)	(12 759)	(28 446)
Distribution to unitholders	(55 972)	(29 851)	(69 308)
Net cash outflow from investment activities	(291 685)	(11 488)	(269 358)
Net cash inflow from financing activities	481 503	(965)	203 568
Net increase in cash and cash equivalents	198 962	1 293	3 173
Cash and cash equivalents at beginning of year	7 527	4 354	4 354
Cash and cash equivalents at end of period	206 489	5 647	7 527

Condensed segmental information

for the six months ended 31 December 2007

	Fixed lease agreements R'000	C-Corp lease agreements R'000	Variable lease agreements R'000	Corporate R'000	Total R'000
Income statement – 31 December 2007					
Segment revenue	47 010	42 002	6 791	–	95 803
Expenditure	–	–	–	(12 395)	(12 395)
Segment operating results	47 010	42 002	6 791	(12 395)	83 408
Net finance cost	–	–	–	(81 746)	(81 746)
Profit before fair value adjustments	47 010	42 002	6 791	(94 141)	1 662
Fair-value adjustments	(1 662)	–	–	268	(1 394)
Segment result	45 348	42 002	6 791	(93 873)	268
Income statement – 31 December 2006					
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 – 31 December 2007					
Non-current assets	1 071 899	744 620	103 200	10 772	1 930 491
Current assets	1 586	13 056	774	209 466	224 882
Segment assets	1 073 485	757 676	103 974	220 238	2 155 373
Non-current liabilities	–	–	–	1 524 552	1 524 552
Current liabilities	4 011	–	–	83 995	88 006
Segment liabilities	4 011	–	–	1 608 547	1 612 558
Balance sheet – 30 June 2006					
Non-current assets	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
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