

Hospitality

PROPERTY FUND



Rights Issue: October 2007



Hospitality Property Fund Limited

(formerly Vizirama 165 (Proprietary) Limited)

Incorporated in the Republic of South Africa

(Registration number 2005/014211/06)

Share Code for A linked units: HPA ISIN: ZAE000076790

Share Code for B linked units: HPB ISIN: ZAE000076808

("Hospitality" or "the Fund")

Circular to Hospitality linked unitholders

relating to:

a renounceable rights offer in respect of 15 903 352 A linked units and
15 903 352 B linked units, made to:

A linked unitholders in the ratio of 34.8088 new A linked units for every
100 A linked units held at the close of business on
Friday, 5 October 2007, at R12.86 per A linked unit; and

B linked unitholders in the ratio of 34.8088 new B linked units for every
100 B linked units held at the close of business on
Friday, 5 October 2007, at R18.58 per B linked unit

and including

- revised listings particulars;
- a form of instruction in respect of a letter of allocation for use by certificated A linked unitholders only (blue), where applicable; and
- a form of instruction in respect of a letter of allocation for use by certificated B linked unitholders only (green), where applicable.

8 October 2007



Merchant bank and sponsor



Reporting accountants
and auditors



EQUITY SALES, TRADING & RESEARCH

Equity capital market
advisor



Corporate law
advisors

Corporate information and advisors

Secretary and registered office

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1st Floor, Building 2
Freestone Park
135 Patricia Road
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Manager

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Merchant bank and sponsor

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Corporate law advisors

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150 West Street, Sandown, 2196
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Reporting accountants and auditors

KPMG Incorporated
(Registration number 1999/021543/21)
KPMG Crescent
85 Empire Road, Parktown, Johannesburg
(Private Bag 9, Parkview, 2122)

Transfer secretaries

Computershare Investor Services 2004
(Proprietary) Limited
(Registration number 2004/003647/07)
70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)

An English copy of the circular, together with the forms of instruction and the documents referred to in section 145A of the Companies Act, being those set out in paragraph 3.14 of the circular, have been lodged with the Registrar of Companies and the forms of instruction have been registered by the Registrar on 21 September 2007 in terms of section 146A of the Companies Act, 1973 (Act 61 of 1973).

This circular is available in English only. Copies may be obtained from the registered office of the Fund and the transfer secretaries at the addresses set out above.

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Action required by linked unitholders

This circular is important and requires your immediate attention. If you are in any doubt as to the action you should take, please consult your broker, CSDP, banker, attorney, accountant or other professional advisor immediately. If you have disposed of all of your linked units in Hospitality, please forward this circular to the person to whom you have disposed of such linked units or the broker, CSDP, banker or other agent through whom you disposed of such linked units.

The rights that are represented by letters of allocation are valuable and may be sold on the JSE. Letters of allocation can, however, only be traded in dematerialised form and, accordingly, all letters of allocation have been issued in dematerialised form. The electronic record for certificated linked unitholders is being maintained by Computershare Nominees and this has made it possible for holders of certificated linked units to enjoy similar rights and opportunities as dematerialised linked unitholders in respect of trades on the JSE of the letters of allocation, to the extent possible. Instructions on how to sell the rights represented by the letters of allocation are set out in paragraph 3.10.1.2 of this circular.

1. Dematerialised linked unitholders including linked units dematerialised with “own name” registration

- 1.1 You will not receive a printed form of instruction as this has been sent to your CSDP or broker.
- 1.2 The CSDP or broker will credit your account with the number of rights that you are entitled to.
- 1.3 The CSDP or broker will contact you to ascertain:
 - 1.3.1 whether you wish to follow your rights in terms of the rights offer and in respect of how many rights offer linked units; or
 - 1.3.2 if you do not wish to follow all or any of your rights:
 - 1.3.2.1 whether you wish to sell your rights and how many rights you wish to sell; and/or
 - 1.3.2.2 whether you wish to renounce your rights and how many rights you wish to renounce and the details of the renouncee.
- 1.4 If not contacted, you should contact your CSDP or broker and furnish them with your instructions. If your CSDP or broker does not obtain instructions, they are obliged to act in terms of the agreement entered into between you and your CSDP or broker.
- 1.5 You must ensure that you have sufficient funds in your account to settle the issue price in respect of the rights offer linked units you apply for.

Hospitality does not take responsibility and will not be held liable for any failure on the part of any CSDP or broker to notify any dematerialised linked unitholder of the rights offer and/or to subscribe for all or part of the rights allocated to such holder and/or to take appropriate action in respect of the renunciation and/or sale of all or part of the rights allocated and/or for any other responsibilities of the CSDP or broker. The linked unitholder should refer to his agreement with the CSDP or broker governing his relationship as a dematerialised linked unitholder.

2. Certificated linked unitholders

- 2.1 You should note that a printed form of instruction in respect of a letter of allocation is enclosed with this circular. A letter of allocation will be created in electronic form by the transfer secretaries in South Africa, in order to afford holders of certificated linked units similar rights and opportunities as holders of dematerialised linked units, to the extent possible.
- 2.2 If you wish to subscribe for the rights offer linked units allocated to you, complete the form of instruction in accordance with the instructions it contains and lodge it, together with payment for the amount due, with the transfer secretaries by no later than 12:00 on Friday, 26 October 2007.
- 2.3 If you do not wish to subscribe for all or some of the rights offer linked units allocated to you, as reflected in the form of instruction, you may sell or renounce your rights. In the event that you wish to sell your rights, you must complete the relevant section of the form of instruction and return it to the transfer secretaries to be received no later than 12:00 on Friday, 19 October 2007. The transfer secretaries have indicated to Hospitality that they will endeavour to procure the sale of such rights on the JSE on your behalf and remit the net proceeds thereof in accordance with your instructions. In this regard, neither the transfer secretaries nor Hospitality will have any obligation or be responsible for any loss or damage whatsoever in relation to or arising from the timing of such sales, the price obtained, or the failure to dispose of such entitlements. In the event that you wish to renounce your rights, you and your renounee must complete the relevant sections of the form of instruction and return it to the transfer secretaries, together with payment of the issue price payable for the relevant rights offer linked units, to be received by no later than 12:00 on Friday, 26 October 2007.
- 2.4 To the extent that you subscribe for the rights allocated to you, you will receive the rights offer linked units in certificated form. You will only be able to trade your rights offer linked units on the JSE through the Strate system once the rights offer linked units have been dematerialised.
- 2.5 Certificated linked unitholders are also referred to paragraph 3.10 of this circular, which sets out the detailed action required by certificated linked unitholders.

3. Jurisdiction

The distribution of the circular, the rights offer, the form of instruction, and the transfer of the rights offer linked units and/or the rights to subscribe for the rights offer linked units in jurisdictions other than South Africa may be restricted by law and failure to comply with any of those restrictions may constitute a violation of the laws of any such jurisdiction. Neither this circular, nor any form of instruction, may be regarded as an offer in any jurisdiction in which it is illegal to make such an offer. In those circumstances, this circular and the form of instruction are sent for information purposes only.

It is the responsibility of any person outside South Africa (including, without limitation, nominees, agents and trustees for such persons) receiving this circular and wishing to take up rights under the rights offer, to satisfy himself as to full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

4. Foreigners

Linked unitholders who are foreigners are referred to paragraph 3.15 of the circular regarding their rights.

Important dates and times

The definitions and interpretations commencing on page 6 of this circular apply to this “Important dates and times” section.

2007

Rights offer announcement published on	Wednesday, 12 September
Last day to trade in linked units in order to settle trades by the record date for the rights offer and to qualify to participate in the rights offer (<i>cum</i> rights)	Friday, 28 September
Linked units commence trading <i>ex-rights</i> on the JSE at 09:00 on	Monday, 1 October
Record date for the rights offer for purposes of determining linked unitholders entitled to participate in the rights offer at the close of business on	Friday, 5 October
Rights offer opens at 09:00 on	Monday, 8 October
Listing and trading of letters of allocation on the JSE commences at 09:00 on	Monday, 8 October
Dematerialised linked unitholders will have their accounts at their CSDP or broker automatically credited with their letters of allocation	Monday, 8 October
Certificated linked unitholders will have their letters of allocation credited to an electronic register at the transfer secretaries	Monday, 8 October
Last day to trade in letters of allocation in order to settle trades by the close of the rights offer and participate in the rights offer at the close of business	Friday, 19 October
Last day for form of instruction of certificated linked unitholders wishing to sell all or part of their entitlement to be lodged with the transfer secretaries by 12:00 on	Friday, 19 October
Listing and trading of rights offer linked units on the JSE commences at 09:00 on	Monday, 22 October
Record date for letters of allocation	Friday, 26 October
Rights offer closes at 12:00 and payment to be made and form of instruction lodged by certificated linked unitholders with the transfer secretaries by 12:00 on	Friday, 26 October
CSDP/Broker accounts credited with rights offer linked units and debited with any payments due in respect of dematerialised rights offer linked units	Monday, 29 October
Rights offer linked unit certificates posted to certificated linked unitholders	Monday, 29 October
Results of rights offer released on SENS	Monday, 29 October
Results of rights offer published in the press	Tuesday, 30 October

Notes:

1. Dematerialised linked unitholders are required to inform their CSDP or broker of their instructions in terms of the rights offer in the manner and time stipulated in the agreement governing the relationship between the shareholders and their CSDP or broker.
2. Linked unit certificates may not be dematerialised or rematerialised between Monday, 1 October 2007 and Friday, 5 October 2007, both days inclusive.
3. Dematerialised linked unitholders will have their accounts at their CSDP automatically credited with their rights and certificated linked unitholders will have their rights credited to an account at Computershare Nominees.
4. CSDPs effect payment in respect of dematerialised linked unitholders on a delivery versus payment method.

Definitions and interpretations

In this circular and its annexures, unless otherwise stated or the context otherwise indicates, the words in the first column shall have the meanings stated opposite them in the second column and the words in the singular shall include the plural and *vice versa*, words importing natural persons shall include corporations and associations of persons and an expression denoting any gender shall include the other genders:

“A debenture”	a variable rate, unsecured, subordinated A debenture with a nominal value of R9.40 in Hospitality, the terms of which are governed by the debenture trust deed;
“A linked unit”	a linked unit comprising one A share which is indivisibly linked to an A debenture;
“A linked unitholders”	the holders of A linked units;
“A share”	an ordinary A share with a par value of R0.0001 in the share capital of Hospitality, which is indivisibly linked to an A debenture;
“B debenture”	a variable rate, unsecured, subordinated B debenture with a nominal value of R9.40 in Hospitality, the terms of which are governed by the debenture trust deed;
“B linked unit”	a linked unit comprising one B share which is indivisibly linked to a B debenture;
“B linked unitholders”	the holders of B linked units;
“B share”	an ordinary B share with a par value of R0.0001 in the share capital of Hospitality, which is indivisibly linked to a B debenture;
“board” or “directors”	the board of directors of Hospitality, which currently comprises of such persons whose names are included on page 10 under the heading “Directors of Hospitality”;
“business day”	any day other than a Saturday, Sunday or official public holiday in South Africa;
“cent”	South African cent in the official currency of South Africa;
“certificated A linked unitholders”	A linked unitholders who hold certificated A linked units;
“certificated B linked unitholders”	B linked unitholders who hold certificated B linked units;
“certificated linked unitholders”	certificated A linked unitholders and certificated B linked unitholders, or any of them, as the context requires;
“certificated A linked units”	A linked units which are “certificated securities” as defined in section 29 of the Securities Services Act, such A linked units being evidenced by a certificate or written instrument;
“certificated B linked units”	B linked units which are “certificated securities” as defined in section 29 of the Securities Services Act, such B linked units being evidenced by a certificate or written instrument;
“CGT”	capital gains tax, as levied in terms of the Eighth Schedule to the Income Tax Act;
“circular”	all of the documents contained in this document, including the annexures and, where applicable, the form or forms of instruction in respect of the letters of allocation;
“common monetary area”	South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;
“Companies Act”	the Companies Act, 1973 (Act 61 of 1973);

“Computershare Nominees”	Computershare Nominees (Proprietary) Limited, a wholly-owned subsidiary of Computershare Limited;
“Coronation Asset Management”	Coronation Asset Management (Proprietary) Limited (Registration number 1993/002807/07), the underwriter of the full amount of rights issue A linked units;
“CPIX”	Consumer price inflation index;
“CSDP”	a Central Security Depository Participant accepted as a participant in terms of the Securities Services Act;
“debenture”	an A debenture and/or a B debenture, or any of them, as the context requires;
“debenture trust deed”	Hospitality’s Principal Debenture Trust Deed and the Supplemental Deeds thereto, entered into between the trustee for the holders of debentures in the Fund for the time being and the Fund, governing the terms of the debentures;
“dematerialisation”	the process by which securities held in certificated form are converted to or held in electronic form as uncertificated securities and recorded in a sub-register of securities holders by a CSDP, after the physical certificates have been validated and cancelled by the transfer secretaries and captured onto the Strate system by the selected CSDP or broker, and the holding of securities is recorded electronically;
“dematerialised A linked unitholders”	A linked unitholders who hold dematerialised A linked units;
“dematerialised A linked units”	A linked units that have been dematerialised;
“dematerialised B linked unitholders”	B linked unitholders who hold dematerialised B linked units;
“dematerialised B linked units”	B linked units that have been dematerialised;
“dematerialised linked unitholders”	dematerialised A linked unitholders and dematerialised B linked unitholders, or any of them, as the context requires;
“dematerialised rights offer linked units”	rights offer linked units offered to dematerialised linked unitholders in the rights offer, that will be issued in dematerialised form;
“Devco”	Hospitality Hotel Developments (Proprietary) Limited (Registration number 2005/040847/07);
“documents of title”	share certificates, certified transfer deeds, balance receipts, and/or any other documents of title in respect of shares and/or debentures;
“EPLU”	earnings per linked unit;
“Exchange Control Regulations”	the Exchange Control Regulations of South Africa, issued under the Currency and Exchanges Act, 1933 (Act 9 of 1933);
“forms of instruction”	the respective forms of instruction in respect of letters of allocation reflecting the rights of certificated A linked unitholders and certificated B linked unitholders, or either of them, as the context requires;
“Grapnel”	Grapnel Property Group (Proprietary) Limited (Registration number 1999/021789/07) and its wholly-owned subsidiary, Grapnel Property Asset Managers (Proprietary) Limited (Registration number 2004/032976/07), co-founder and promoter of Hospitality, or any of them, as the context requires;
“HEPLU”	headline earnings per linked unit;

“Hospitality” or “the Fund”	Hospitality Property Fund Limited (formerly Vizirama 165 (Proprietary) Limited) (Registration number 2005/014211/06), a public company incorporated in South Africa and which is listed on the JSE;
“Hospitality Hotel Manco”	Hospitality Hotel Management Company (Proprietary) Limited (Registration number 2005/035989/07), the shareholders of which are Grapnel and HTLAM;
“Hospitality Manco”	Hospitality Property Fund Managers (Proprietary) Limited (Registration number 2005/035257/07), the fund and asset management company of Hospitality and the Hospitality property portfolio, the shareholders of which are Grapnel and HTLAM;
“Hospitality’s articles”	Hospitality’s Articles of Association;
“Hospitality property portfolio”	Hospitality’s portfolio of 21 hotel and resort properties in South Africa, details of which are set out in paragraph 5.3 of this circular and Annexure 11;
“HPF”	HPF Properties (Proprietary) Limited (Registration number 2005/020743/07) formerly HPT Properties (Proprietary) Limited, a private company incorporated in South Africa and a wholly-owned subsidiary of Hospitality;
“HTLAM”	Hotel Tourism and Leisure Asset Management (Proprietary) Limited (Registration number 2005/016280/07), co-founder and sponsor of Hospitality;
“IFRS”	International Financial Reporting Standards;
“Income Tax Act”	the Income Tax Act, 1962 (Act 58 of 1962);
“initial record date”	the date on which linked unitholders must be recorded in the register as such to be entitled to participate in the rights offer, being Friday, 5 October 2007;
“issue price”	the price at which the rights offer linked units will be issued to subscribers, being R12.86 for every rights offer A linked unit and R18.58 for every rights offer B linked unit;
“JIBAR”	the Johannesburg Interbank Agreed Rate from time to time on a nominal annual compounded monthly basis;
“JSE”	JSE Limited (Registration number 2005/022939/06), a company with limited liability duly registered and incorporated under the laws of South Africa and licensed as an exchange under the Securities Services Act;
“letters of allocation”	the renounceable (nil paid) letters of allocation to be issued to Hospitality linked unitholders, in electronic form, conferring a right to subscribe for a <i>pro rata</i> proportion of the rights offer linked units in terms of the rights offer;
“linked unitholders” or “Hospitality linked unitholders”	A linked unitholders and B linked unitholders, or any of them, as the context requires;
“linked units”	A linked units and B linked units, or any of them, as the context requires;
“Listings Requirements”	the Listings Requirements of the JSE;
“Majormatic” or “C-Corp”	Majormatic 194 (Proprietary) Limited (Registration number 2005/041011/07), “C-Corp” in the Fund’s structure;
“NAVPLU”	net asset value per linked unit;
“non-resident”	a person not ordinarily resident in South Africa;
“Rand” or “R”	South African Rand, the official currency of South Africa;

“register”	the register of certificated linked unitholders maintained by the transfer secretaries and the subregister of dematerialised linked unitholders maintained by the relevant CSDPs;
“Registrar”	the Registrar of Companies appointed under the Companies Act;
“reporting accountants”	KPMG Inc., registered accountants and auditors;
“RevPAR”	revenue per available room night;
“right” or “entitlement”	the entitlement to rights offer linked units in terms of the rights offer;
“rights issue”	<p>the renounceable rights offer by Hospitality to its linked unitholders and/or their renounees, in respect of 15 903 352 A linked units and 15 903 352 B linked units, made to:</p> <ul style="list-style-type: none"> • A linked unitholders in the ratio of 34.8088 rights offer A linked units for every 100 A linked units held at the close of business on Friday, 5 October 2007, at R12.86 per A linked unit; and • B linked unitholders in the ratio of 34.8088 rights offer B linked units for every 100 B linked units held at the close of business on Friday, 5 October 2007, at R18.58 per B linked unit;
“rights offer”	the renounceable rights offer by Hospitality to its linked unitholders;
“rights offer A linked units”	A linked units to be issued pursuant to the rights offer;
“rights offer B linked units”	B linked units to be issued pursuant to the rights offer;
“rights offer linked units”	rights offer A linked units and rights offer B linked units, or any of them, as the context requires;
“Sanlam Investment Management”	Sanlam Investment Management (Proprietary) Limited (Registration number 1967/011973/07), a subsidiary of Sanlam Life Insurance Limited (Registration number 1998/021121/06), the underwriter of the full amount of rights issue B linked units;
“SENS”	Securities Exchange News Service of the JSE;
“share”	A share or B share, or any of them, as the context requires;
“South Africa”	the Republic of South Africa;
“SRP”	the Securities Regulation Panel established in terms of section 440B of the Companies Act;
“Strate”	Strate Limited (Registration number 1998/022242/06), the electronic custody and settlement system used by the JSE;
“transfer secretaries”	Computershare Investor Services 2004 (Proprietary) Limited (Registration number 2004/003647/07), a company incorporated in South Africa;
“underwriters”	those companies underwriting the rights issue, namely Coronation Asset Management in respect of the rights offer A linked units, and Sanlam Investment Management in respect of the rights offer B linked units, or any of them, as the context requires;
“underwriting agreements”	the agreements in respect of the underwriting of the rights offer by the underwriters; and
“VAT”	Value-added Tax, payable in terms of the Value-added Tax Act, No 91 of 1991.



Hospitality Property Fund Limited

(formerly Vizirama 165 (Proprietary) Limited)

Incorporated in the Republic of South Africa

(Registration number 2005/014211/06)

Share Code for A linked units: HPA ISIN: ZAE000076790

Share Code for B linked units: HPB ISIN: ZAE000076808

Directors of Hospitality

Executive

GA Nelson (*Chief Executive Officer*)

Y Aminzadeh

R Asmal

AS Rogers

#Independent

Non-executive

TE Sewell (*Chairman*)#

KH Abdul-Karrim#

BM Madumise#

WC Ross#

Circular to Hospitality linked unitholders

1. INTRODUCTION

Hospitality intends to undertake a capital raising for a total of R500 million by way of a rights offer. The funds raised are to be utilised to settle the purchase considerations in respect of various property acquisitions as well as the funding of certain expansion and refurbishment projects which are currently under review. The rights issue and associated transactions are projected to be yield enhancing.

The renounceable rights offer was announced on SENS on 30 August 2007 and a revised announcement was made on 12 September 2007.

The purpose of this circular is to provide linked unitholders with the terms and conditions of the rights offer, furnish them with information on Hospitality pursuant to the rights offer and provide linked unitholders with instructions on participation in the rights offer.

2. RATIONALE AND PURPOSE OF THE RIGHTS OFFER

The primary consideration in proposing a rights offer at this time is the requirement for funds which are to be utilised for various capital projects. Over the course of the next 18 months, Hospitality will require funds for various property acquisitions as well as the expansion and refurbishment of certain existing properties. The estimated total funding required in respect of these projects is approximately R750 million.

Funds are to be raised through a rights offer rather than other forms of capital raising or increased debt facilities for the following reasons:

- in the current environment, the yield on equity is significantly lower than the cost of debt;
- there currently appears to be demand for additional linked units in the market place;
- the rights offer will allow all linked unitholders to subscribe for additional linked units and is therefore a more equitable manner of raising capital than a private placement; and
- additional linked units floated in the market place are likely to enhance liquidity.

The rights offer will not fully satisfy the anticipated funding requirement, with an anticipated shortfall of approximately R250 million. This will be financed with debt by increasing the Fund's borrowing facilities in the short term.

The effects of the rights issue coupled with the envisaged return from the various acquisitions and expansion and refurbishment projects under review are forecast to have a positive impact on the Fund's earnings. Projections indicate that the average growth in the B linked unit distribution should be enhanced by the rights issue when compared to debt funding.

2.1 Funding requirements for acquisitions

The Fund will, in the short term, be utilising debt facilities to fund the announced acquisitions of The Hazyview Hotel, Hluhluwe Hotel & Safaris, the extension to the Birchwood Hotel, the additional shares in 90 sectional title units at the Radisson Hotel Waterfront and the remaining share in the Park Inn Greenmarket Square. The proceeds from the rights offer will be applied to reducing these short-term borrowings.

The capital required for all of the secured acquisitions will total approximately R235 million. Other acquisitions under consideration could require an additional total investment of R130 million. Given the early stage of these negotiations, they have not been factored into the indicative financial projections.

Details of the various acquisitions and associated costs are as follows:

Property	Total capital costs (R'000)
The Hazyview Hotel	40 500
Hluhluwe Hotel & Safaris	27 600
Shares in 90 units at the Radisson Hotel Waterfront	22 000
Remaining Share in the Park Inn Greenmarket Square	15 000
Extension to the Birchwood Hotel	130 000
Total capital costs of acquisitions	235 100

2.2 Funding requirements for expansion and refurbishment projects

Market and financial analyses are currently being finalised in respect of the redevelopment, expansion, refurbishment and repositioning of a number of properties within the Fund's current portfolio.

The total estimated funding required for these projects amounts to approximately R500 million. Should these projects proceed, it is likely that they will all be completed in the next 18 months.

The two largest projects are: the refurbishment of the Rosebank Hotel, estimated at R254 million; and the expansion and refurbishment of the Mount Grace Country House and Spa, estimated at R110 million.

The projects under review are as follows:

- The Rosebank Hotel: refurbishment;
- The Rosebank Hotel: development of spa and wellness centre;
- Mount Grace Country House & Spa: expansion and refurbishment;
- Champagne Sports Resort: expansion and refurbishment;
- The Imperial Hotel: expansion and refurbishment;
- The Winkler Hotel: expansion and refurbishment;
- The Bayshore Inn: refurbishment;
- The Richards Hotel: refurbishment; and
- Protea Hotel Richards Bay: refurbishment.

2.3 Fund-raising considerations

- Due to current market dynamics, equity is the least expensive form of finance.
- The rights issue and associated transactions are likely to be earnings enhancing.
- The borrowing capacity of the Fund will increase, enabling it to raise capital for future investment opportunities.
- The rights offer is equitable in that it allows all linked unitholders to subscribe for additional linked units.
- The larger free float is likely to increase the liquidity of the linked units.
- The rights issue proceeds will position Hospitality to capitalise on the favourable market conditions and significant growth expectations in the hospitality sector.

3. TERMS OF THE RIGHTS OFFER

3.1 Particulars of the rights offer

Hospitality hereby offers for subscription, by way of a renounceable rights offer to linked unitholders and/or their renounees, 15 903 352 A linked units and 15 903 352 B linked units, as follows:

- A linked unitholders are offered 34.8088 rights offer A linked units for every 100 A linked units held at the close of business on Friday, 5 October 2007, at R12.86 per A linked unit; and
- B linked unitholders are offered 34.8088 rights offer B linked units for every 100 B linked units held at the close of business on Friday, 5 October 2007, at R18.58 per B linked unit.

Only linked unitholders recorded in the register on the record date for the rights offer (other than certain foreign linked unitholders resident in jurisdictions where the rights offer is restricted by law) are entitled to participate in the rights offer.

The enclosed forms of instruction contains details of the rights to which certificated linked unitholders are entitled, as well as the procedures for acceptance and/or sale and/or renunciation of all or part of those rights. Dematerialised linked unitholders will be advised of the rights to which they are entitled as well as the procedure for acceptance and/or sale and/or renunciation of all or part of those rights by their CSDP or broker in terms of the agreement entered into between the linked unitholder and his CSDP or broker, as the case may be.

All transactions arising in terms of this circular and the letters of allocation will be governed by, and be subject to, the laws of South Africa.

The rights offer linked units issued in terms of this circular will rank *pari passu* with the existing issued Hospitality linked units in their class.

3.2 Salient dates and times

	2007
Rights offer opens at 09:00 on	Monday, 8 October
Last day to trade in letters of allocation in order to settle trades by the close of the rights offer and participate in the rights offer at the close of business	Friday, 19 October
Listing and trading of rights offer linked units commences on the JSE at 09:00 on	Monday, 22 October
Rights offer closes at 12:00 on	Friday, 26 October
Payment to be made and form of instruction lodged by certificated linked unitholders with the transfer secretaries by 12:00 on	Friday, 26 October

3.3 Entitlement

3.3.1 The number of rights offer linked units to which linked unitholders will be entitled are stated in the table of entitlement set out in Annexure 1. Linked unitholders who hold less than 100 A linked units or 100 B linked units, as the case may be, or whose linked unitholdings are not a whole multiple of 100 A linked units or 100 B linked units, as the case may be, will be entitled, in respect of such holdings, to participate in the rights offer in accordance with Annexure 1. The allocation of rights offer linked units will be such that linked unitholders will not be allocated a fraction of a rights offer linked unit and as such any linked unitholding giving rise to a fraction of:

- less than one half of a rights offer linked unit will be rounded down to the nearest whole number; and
- equal to or greater than one half of a rights offer linked unit will be rounded up to the nearest whole number;

in accordance with the Listings Requirements.

3.3.2 Dematerialised linked unitholders will have their safe custody accounts automatically credited with their entitlements in accordance with Annexure 1.

3.3.3 Certificated linked unitholders will have their rights credited to a custody account in an electronic form, which will be administered by Computershare Nominees on their behalf. The enclosed form of instruction reflects the number of rights offer linked units for which certificated linked unitholders are entitled to subscribe. The procedures that such linked unitholders should follow for the acceptance, sale or renunciation of their rights are reflected in paragraph 3.10.1, and more fully in the form of instruction.

3.3.4 The rights that are represented by letters of allocation are valuable and may be sold on the JSE. Letters of allocation can, however, only be traded in dematerialised form and, accordingly, all letters of allocation have been issued in dematerialised form. The maintaining of an electronic record of certificated linked units by Computershare Nominees has made it possible for certificated linked unitholders to enjoy similar rights and opportunities as dematerialised linked unitholders in respect of trades on the JSE of the letters of allocation, to the extent possible.

3.4 Minimum subscription

The rights offer is fully underwritten and as such the offer is not subject to a minimum subscription.

3.5 Excess applications

Excess applications are not applicable to this rights offer.

3.6 Underwriting of the rights offer

The rights offer is fully underwritten as follows:

- by Coronation Asset Management in respect of 15 903 352 rights offer A linked units, which is the total amount of rights issue A linked units. The total value of this underwriting is R204 517 107, being 15 903 352 rights offer A linked units at a price of R12.86 per rights offer A linked unit; and
- by Sanlam Investment Management in respect of 15 903 352 rights issue B linked units, which is the total amount of rights issue B linked units. The total value of this underwriting is R295 484 280, being 15 903 352 rights offer B linked units at a price of R18.58 per rights offer B linked unit.

The total cost of the underwriting is 1.5% (150 basis points) of the total underwriting value, which equates to a total underwriting fee of R7 500 021 (R3 067 757 in respect of the rights offer A linked units and R4 432 264 in respect of the rights offer B linked units).

The underwriting agreements are unconditional and irrevocable.

3.6.1 Details of the underwriters

3.6.1.1 Coronation Asset Management

Incorporation:

25 May 1993 in Pretoria, Gauteng, South Africa.

Directors:

- JA Snelam
- MM Du Toit

Company Secretary:

Y Moodley

Bankers:

Nedbank Corporate, Cape Town

Share Capital:

Authorised share capital: 250 000 shares of R0.01 each.

Issued share capital: 250 000 shares of R0.01 each.

3.6.1.2 Sanlam Investment Management

Incorporation:

23 October 1998 in Pretoria, Gauteng, South Africa.

Directors:

- RC Anderson (Chairman)
- PT Motsepe (Deputy Chairman)
- J van Zyl (Group CEO)
- MMM Bakane-Tuoane
- AD Botha
- AD du Plessis
- FA du Plessis
- WG James
- JP Möller
- MV Moosa
- RK Morathi
- SA Nkosi
- I Plenderleith
- M Ramos
- GE Rudman
- RV Simelane
- ZB Swanepoel
- PL Zim

Company Secretary:

M Lombard

Bankers:

Absa Bank Limited

Share Capital:

Authorised share capital: 100 000 000 shares of R0.01.

Issued share capital: 50 000 000 shares of R0.01.

The company is a wholly owned subsidiary of Sanlam Limited.

3.7 Allocation of rights issue funds toward clawback

The cash raised through the issue of the rights offer linked units at the issue price includes a clawback in respect of the distribution period of July 2007 to December 2007 to compensate existing linked unitholders for the time value of money in respect of the attributable income to the rights offer linked units issued. The quantum in respect of this claw-back amount is R8 278 158, which amount will be recognised as income to the Fund.

3.8 JSE listings

The JSE has granted listings for the letters of allocation and rights offer linked units as follows:

Letters of allocation

Commencement of listing: Monday, 8 October 2007

A linked units

Share code: HPAN

ISIN: ZAE000105060

B linked units

Share code: HPBN

ISIN: ZAE000105078

Rights offer linked units

Commencement of listing: Monday, 22 October 2007

3.9 South African law

All transactions arising from the provisions of this circular and the forms of instruction shall be governed by and be subject to the laws of South Africa.

3.10 Procedure for acceptance, renunciation and sale of rights

3.10.1. Certificated linked unitholders

3.10.1.1 Acceptance

Full details of the procedure for acceptance of the rights offer by certificated linked unitholders are contained in the forms of instruction enclosed with this circular. It should be noted that:

- acceptances are irrevocable and may not be withdrawn;
- any instruction to sell or renounce all or part of the rights may only be made by means of the forms of instruction;
- the properly completed form of instruction, and payment of the offer price payable for the relevant rights offer linked units in the form stipulated in paragraph 3.10.1.3 must be received by Computershare Nominees at either of the addresses referred to in paragraph 3.10.1.3.2 by no later than 12:00 on Friday, 26 October 2007. No postal acceptances received after 12:00 on Friday, 26 October 2007 will be allowed and certificated linked unitholders are therefore advised to take into consideration postal delivery times. No acknowledgement of receipt will be given; and
- if a form of instruction and payment are not received as set out above, the rights offer will be deemed to have been declined and the rights in terms of the form of instruction will lapse regardless of who holds it.

3.10.1.2 Renunciation or sale of rights

Although Hospitality will issue all letters of allocation in dematerialised form, an electronic record for certificated linked unitholders is being maintained by Computershare Nominees. This will make it possible for certificated linked unitholders to enjoy the same rights and opportunities as dematerialised linked unitholders, to the extent possible.

Certificated linked unitholders not wishing to subscribe for all or some of the offer linked units allocated to them, as reflected in the forms of instruction, may sell or renounce their rights.

Certificated linked unitholders who wish to sell all or some of the rights allocated to them, as reflected in their forms of instruction, must complete the relevant section of the form of instruction and return it to the transfer secretaries in accordance with the instructions contained therein, to be received by no later than 12:00 on Friday, 19 October 2007.

Computershare Nominees have indicated that they will endeavour to procure the sale of the rights on the JSE on behalf of such certificated linked unitholders and will remit the proceeds in accordance with the payment instructions reflected in the form of instruction, net of brokerage charges and associated expenses. Neither the transfer secretaries nor Hospitality will have any obligation or be responsible for any loss or damage whatsoever in relation to or arising out of the timing of such sales, the price obtained or any failure to sell such entitlements.

Certificated linked unitholders who wish to renounce their rights or any part thereof that they do not wish to subscribe for or sell, should complete the relevant section of the form of instruction and then hand it to the renounee or agent who or whose principal will then be entitled to participate in the rights offer as though he was a linked unitholder, to the extent of the renunciation. The renounee or agent should then forward the form of instruction and payment of the issue price payable for the relevant offer linked units, in accordance with paragraph 3.10.1.3, to the transfer secretaries in accordance with the instructions contained therein.

Certificated linked unitholders who wish to subscribe for only a portion of the rights offer linked units allocated to them and to sell and/or renounce the balance, must indicate the number of rights offer linked units for which they wish to subscribe on the form of instruction.

3.10.1.3 Payment

3.10.1.3.1 *Currency*

The amount due on acceptance of the rights offer is payable in Rands and cents.

3.10.1.3.2 *Payment terms*

A banker's draft drawn on a registered bank or a bank guaranteed cheque drawn on a South African bank (in either case crossed and marked "not transferable" and, in the case of a cheque, also with the words "or bearer" deleted) in favour of "Hospitality – Rights offer" for the amount payable, together with a properly completed form of instruction, must be lodged by certificated linked unitholders and/or their renounees by no later than 12:00 on Friday, 26 October 2007 in accordance with the instructions contained in the form of instruction and clearly marked "Hospitality – Rights offer":

by hand to:

Computershare Investor Services 2004 (Proprietary) Limited
Ground floor
70 Marshall Street
Johannesburg, 2001

or sent by post, at the risk of the person concerned, to:

Computershare Investor Services 2004 (Proprietary) Limited
PO Box 61763
Marshalltown, 2107

All cheques or bankers' drafts received by the transfer secretaries will be deposited immediately for payment. In the event that any cheque or banker's draft is dishonoured, Hospitality, in its sole discretion, may treat the relevant acceptance of the rights offer as void or may tender delivery of the relevant rights offer linked units to which it relates against payment in cash of the issue price for such rights offer linked units.

Money received in respect of an application which is rejected or otherwise treated as void by Hospitality, or which is otherwise not validly received in accordance with the terms stipulated in this paragraph, will be posted by ordinary post (without interest) by way of a cheque drawn in South African currency to the applicant concerned, at the applicant's risk on or about Monday, 29 October 2007. If the applicant concerned is not a linked unitholder and gives no address in the form of instruction, then the relevant refund will be held by Hospitality until collected by the applicant. No interest will be paid on such amounts held back.

3.10.1.4 Rights offer linked unit certificates

Certificates in respect of rights offer linked units will be posted by registered post by the transfer secretaries, at the risk of the certificated linked unitholders concerned, on or about Monday, 29 October 2007. As Hospitality uses the certified transfer deeds and other temporary documents of title approved by the JSE, only block certificates will be issued in respect of the rights offer linked units.

Certificated linked unitholders receiving rights offer linked units in certificated form must note that such rights offer linked units cannot trade on the JSE until they have been dematerialised. This could take between one and ten days.

3.10.2 Dematerialised linked unitholders

3.10.2.1 Acceptance, renunciation or sale of rights

The CSDP or broker appointed by dematerialised linked unitholders should contact such linked unitholders to ascertain:

- whether such dematerialised linked unitholders wish to follow their rights in terms of the rights offer and in respect of how many rights offer linked units; or
- if such dematerialised linked unitholders do not wish to follow all or any of their rights, whether they wish to sell or renounce their rights and how many rights they wish to sell or renounce.

If you are not contacted, you should timeously contact your CSDP or broker and furnish them with your instructions. Should a CSDP or broker not obtain instructions from a dematerialised linked unitholder, it is obliged to act in terms of the mandate granted to it by such dematerialised linked unitholder, or if the mandate is silent in this regard, it may not be required to accept the rights on behalf of such linked unitholder.

3.10.2.2 Payment

Your CSDP or broker will effect payment directly on your behalf on Monday, 29 October 2007, on a delivery versus payment basis.

3.10.2.3 Crediting of accounts

Dematerialised linked unitholders will have their accounts credited with the rights offer linked units subscribed for in terms of the rights offer on Monday, 29 October 2007.

3.11 Tax consequences

Hospitality linked unitholders are advised to consult their professional advisors regarding the tax consequences of the rights offer.

3.12 Transaction costs

Hospitality linked unitholders wishing to sell or renounce all or part of their rights will be liable to pay brokerage charges and associated expenses.

3.13 Expenses of the rights offer

The following expenses and provisions are expected, or have been provided for in connection with the rights offer, are exclusive of VAT and will be settled out of the proceeds of the rights offer:

Description	Payable to	Estimated amount (excluding VAT) R'000
Underwriting fees (in respect of rights offer A linked units)	Coronation Asset Management	3 068
Underwriting fees (in respect of rights offer B linked units)	Sanlam Investment Management	4 432
Merchant bank and sponsor fees	Rand Merchant Bank	2 500
Press announcements	Ince (Proprietary) Limited	200
Circular printing and distribution	Bastion Graphics (Proprietary) Limited	150
JSE documentation fees	JSE	31
JSE listing fees	JSE	134
Corporate law advisor fees	Edward Nathan Sonnenbergs Incorporated	130
Reporting accountants and auditors fees	KPMG Incorporated	50
Disbursements	Various	50
Estimated total		10 745

3.14 Registration of the rights offer documents

A signed copy of this circular, together with a copy of the form of instruction and the following documents referred to in section 145A of the Companies Act, have been lodged with the Registrar:

- the written consents of the merchant bank and sponsor, the equity capital market advisor, and of the corporate law advisors to act in the capacities stated, and to their names being stated in this circular;
- the written consent of the reporting accountants and auditors to act in the capacities stated, and to their names and report being stated in this circular;
- copies of all documents required and approved by the JSE, including a copy of the letter from the JSE confirming its approval of such documents;
- copies of all significant contracts; and
- where applicable, the powers of attorney granted by the directors of Hospitality.

The underwriting agreements and sworn declarations, as required by section 146A and read with section 153 (1) of the Companies Act.

The form of instruction has been registered by the Registrar on 21 September 2007 in terms of section 146A of the Companies Act.

3.15 Exchange Control Regulations

The following summary is intended only as a guide and is therefore not comprehensive. Hospitality linked unitholders who are in any doubt as to the appropriate course of action to take should consult their professional advisors.

The rights offer linked units will not be freely transferable from South Africa and will have to be dealt with in terms of the Exchange Control Regulations.

Hospitality linked unitholders who are not resident in the common monetary area should obtain advice as to whether any governmental and/or other legal consent is required and/or whether any other formality must be observed to follow their rights in terms of the rights offer.

Non-residents of the common monetary area

In terms of the Exchange Control Regulations of the Republic of South Africa, non-residents of the common monetary area will be allowed to:

- take up rights allocated in terms of the offer;
- purchase letters of allocation on the JSE Limited; and
- subscribe for new linked units arising from letters of allocation purchased on the JSE Limited.

provided that payment is received in foreign currency or in Rand from a non-resident account.

All applications by non-residents for the above purposes must be made through an authorised dealer in foreign exchange. Linked units subsequently rematerialised and issued in certificated form, will be endorsed "Non-resident".

Former residents of the common monetary area (“emigrants”)

Where a right in terms of the offer falls due to a former resident of the common monetary area, which right is based on linked units controlled in terms of the Exchange Control Regulations, only emigrants’ blocked funds may be used to take up this right. In addition, emigrants blocked funds may also be used to:

- purchase letters of allocation on the JSE Limited; and
- subscribe for new linked units arising from the letters of allocation purchased on the JSE Limited.

Applications by emigrants using emigrants’ blocked funds for the above purposes must be made through the Authorised Dealer in foreign exchange controlling their blocked assets. Any linked units issued pursuant to the use of emigrant blocked funds will be credited to their blocked share accounts at the CSDP controlling their blocked portfolios. The sale proceeds of letters of allocation, if applicable, will be returned to the authorised dealer in foreign exchange for credit to such emigrants’ blocked accounts.”

The use of proceeds for investments outside the CMA requires prior approval of Exchange Control.

4. FINANCIAL INFORMATION

4.1 Historical financial information

Hospitality commenced operations in its current legal form on 16 February 2006. The financial information presented in this circular and annexures therefore represent two financial periods, being the four and a half months ended June 2006 and the twelve months ended June 2007.

Annexure 2 to this circular contains:

- the consolidated income statements and cash flow statements of Hospitality for the financial periods ended 30 June 2006 and 30 June 2007, as well as the consolidated balance sheets at those dates;
- principal accounting policies of Hospitality, as extracted from the annual financial statements for the period ended 30 June 2007; and
- principal notes to the annual financial statements extracted from the 2007 Annual Report of Hospitality.

The auditors’ report on the audited financial statements for the financial period ended 30 June 2007 was issued without qualification.

4.2 Pro forma financial information

The *pro forma* balance sheet of Hospitality, showing the effects of the rights issue, based on the assumption that it had been implemented on 30 June 2007 is included in Annexure 3.

No *pro forma* income statement is presented as the utilisation of the cash raised through the rights issue has not been allocated to the settlement of specific debt but is under the control of management and will be used to fund further capital growth.

An independent reporting accountants’ report on the *pro forma* balance sheet and financial effects of the rights offer is included as Annexure 4.

4.2.1 Unaudited pro forma financial effects

The table below sets out the *pro forma* balance sheet effects of the rights issue. The unaudited *pro forma* balance sheet, which is the responsibility of the directors of Hospitality, has been prepared for illustrative purposes only and, because of its nature, may not give a true reflection of Hospitality’s financial position, changes in equity, results of operations or cash flows.

The unaudited *pro forma* financial information is merely intended to provide information about how the rights offer may have affected the balance sheet of Hospitality at 30 June 2007, had the rights offer been effected on that date.

	Before the rights issue¹	After the rights issue	Change (%)
NAVPLU (A linked unit) (Rand)	13.34	13.87 ²	4.0
NAVPLU (B linked unit) (Rand)	13.34	13.87 ³	4.0
Number of Hospitality A linked units in issue (’000)	45 688	61 591	34.8
Number of Hospitality B linked units in issue (’000)	45 688	61 591	34.8

Notes:

1. The “Before the rights offer” column is based on Hospitality’s published audited financial statements for the period ended 30 June 2007.

2. The “After the rights issue” NAVPLU per A linked unit has been adjusted for the issue of 15 903 352 A linked units.

3. The “After the rights issue” NAVPLU per B linked unit has been adjusted for the issue of 15 903 352 B linked units.

5. INFORMATION REGARDING HOSPITALITY

5.1 Incorporation and history of Hospitality

Hospitality was incorporated on 10 May 2005 under the name Vizirama 165 (Proprietary) Limited and listed on the main board of the JSE under the Financials – Real Estate Sector on 16 February 2006. The Fund was established as a property loan stock company (PLS) and has a dual linked unit structure in the form of A linked units (trading under the code HPA), and B linked units (trading under the code HPB).

The Fund was established as a property holding and investment company, with property interests held directly through the ownership or lease of immovable property and indirectly through the holding of listed and unlisted securities. The Fund is the first listed property company in South Africa which specialises in the ownership of hospitality and leisure-based properties.

Hospitality holds its property portfolio through a wholly-owned subsidiary, HPF, a direct and indirect property holding and investment vehicle. Upon listing, the Fund's portfolio included interests in 16 properties, independently valued at R1 billion. Following a number of acquisitions and independent revaluations of the Fund's investment properties, the portfolio, comprising interests in some 21 properties, was valued at R1.67 billion as at 30 June 2007.

BEE ownership of Hospitality amounts to 30.4% of total linked units in issue through investments by the National Empowerment Fund Corporation (Proprietary) Limited, Nobuntu Investments (Proprietary) Limited and Nobuntu Investments II (Proprietary) Limited.

5.2 Nature of business and prospects

5.2.1 Overview of the business

The Fund was established with an aim of presenting linked unitholders with an investment vehicle which has exposure to both the property and hospitality sectors in South Africa. This is achieved through the ownership of a portfolio of hotels and resorts which provide diversification in terms of geographic location, star grading, fixed and variable income, lease expiry profile, market mix and brands. The hospitality sector has recorded sustained growth in the past and its prospects are positive.

Hospitality's strategy is focused on three core drivers, namely: returns, risk diversification and growth. The strategy is focused on growing its current portfolio through the addition of assets which further diversify the portfolio and which have the potential to enhance unitholder returns.

The Hospitality property portfolio currently comprises interests in the following 21 properties:

- Birchwood Executive Hotel and Conference Centre;
- Champagne Sports Resort;
- Courtyard Arcadia;
- Courtyard Cape Town;
- Courtyard Eastgate;
- Courtyard Rosebank;
- Courtyard Sandton;
- Kopanong Hotel and Conference Centre;
- Mount Grace Country House and Spa;
- Park Inn Greenmarket Square;
- Premier Hotel King David;
- Protea Hotel Marine;
- Protea Hotel Richards Bay;
- Protea Hotel Victoria Junction;
- Radisson Hotel Waterfront;
- The Bayshore Inn;
- The Hazyview Hotel;
- The Imperial Hotel;
- The Richards Hotel;
- The Rosebank Hotel; and
- The Winkler Hotel.

On 26 July 2007, linked unitholders were advised that the Fund had entered into agreements to acquire the following properties:

- The Hazyview Hotel;
- The Hluhluwe Hotel & Safaris;
- the remaining 35% share in the originally acquired 90 sectional title units at the Radisson Hotel Waterfront in Cape Town;
- the remaining 32% share in the Park Inn Greenmarket Square in Cape Town; and
- a newly developed extension to the Birchwood Executive Hotel & Conference Centre, comprising 120 hotel rooms and approximately 10 000 m² of conference space.

All of the abovementioned properties have been transferred to the Fund to date, except for the remaining share in the Park Inn Greenmarket Square and the extension to the Birchwood Executive Hotel & Conference Centre. The transfer of the Park Inn Greenmarket Square is expected to be effected by the end of September and the extension to the Birchwood is expected to be effected by the end of November 2007.

Details regarding the asset and property management functions are contained in paragraph 5.3 and in Annexure 10. Additional property portfolio information is contained in paragraph 5.3 and in Annexure 11.

5.3 Overview of property portfolio

The portfolio is segmented into three lease types, namely: C-Corp lease properties, fixed lease properties and variable lease properties.

C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being variable rental equivalent to 90% of the hotels' earnings before interest, tax, depreciation and amortisation (EBITDA) after deducting the fixed lease portion.

Rentals under fixed lease agreements are determined by normal commercial lease terms, with inflation-linked annual escalations.

Variable lease agreements comprise rentals based fully on EBITDA from the property's underlying operations.

A brief overview of each of the properties comprising the Hospitality property portfolio is set out below.

5.3.1 *Mount Grace Country House and Spa*

(C-Corp lease agreement)

This award-winning country house and spa dates back to 1983 and is located near the town of Magaliesburg, approximately one hour driving time from Johannesburg and Pretoria and comprises 81 keys. The hotel caters primarily to the corporate conference market during the week and the leisure market on weekends. The spa at Mount Grace was opened in September 2002 and has become one of South Africa's most prestigious spas. The hotel is under management by Hospitality Hotel Manco.

The Fund is currently undertaking development feasibility analyses in respect of a phased expansion of the resort and its various facilities. It is likely that the resort will undergo a major refurbishment and repositioning during the course of the financial years ending June 2008 and June 2009. A phased expansion of the resort is further envisioned in the short- to medium-term future to allow the Fund to capitalise on the resort's full potential.

5.3.2 *Protea Hotel Marine Port Elizabeth*

(C-Corp lease agreement)

Located on Marine Drive in Summerstrand, Port Elizabeth, overlooking Pollock Beach and Algoa Bay, this hotel comprises 98 keys. The hotel is situated on the beachfront and caters predominantly to the corporate and conference markets during the week, with a considerable leisure market following during weekends and national and international holiday periods. The hotel is managed by Protea Hotels.

The hotel was established in 1943 and underwent extensive refurbishment and expansion programmes in 2003 and 2004, which added an additional 19 lofts to the property's capacity. It is likely that a refurbishment will take place at the hotel during the next several years to entrench the hotel's position at the top-end of the accommodation and conference market in Port Elizabeth.

5.3.3 Protea Hotel Richards Bay

(C-Corp lease agreement)

This hotel is located in Richards Bay and comprises a total of 66 keys and two conference rooms. The hotel caters predominantly to the corporate market and is managed by Protea Hotels. As part of the Protea network, the hotel has been able to tap into the industrial corporate market in Richards Bay.

The hotel has been partially renovated in recent years and is likely to undergo further refurbishment during the course of the coming two financial years.

5.3.4 Protea Hotel Victoria Junction

(C-Corp lease agreement)

This property is well positioned in Cape Town's Green Point district and enjoys a varied guest segmentation mix, including: foreign and domestic leisure visitors, domestic corporate travellers, as well as niche markets such as the film industry. The hotel was developed as a sectional title scheme and features some 172 accommodation keys, 148 of which have been acquired by the Fund.

Within the next several years the hotel is likely to undergo a refurbishment in order to maintain its position in the market. The hotel is managed by Protea Hotels.

5.3.5 The Bayshore Inn

(C-Corp lease agreement)

Located in the Meerensee suburb of Richards Bay, the Bayshore Inn was acquired by the Fund in February 2007 together with the Richards Hotel. The hotel trades in the 1- and 2-star limited service sector and caters predominantly to corporate travellers. The hotel includes some 102 rooms and two conference facilities.

The hotel is likely to undergo a major refurbishment during the course of the coming year, which should position the hotel as the limited service hotel of choice in the Richards Bay area. The hotel is managed by Hospitality Hotel Manco.

5.3.6 The Hazyview Hotel

(C-Corp lease agreement)

The Hazyview Hotel (formerly the Protea Hotel Hazyview) was acquired by the Fund in August 2007 and features 80 accommodation keys. The hotel is located just outside of Hazyview in Mpumalanga, within close proximity of the Kruger National Park. The hotel caters predominantly to the foreign leisure market in the form of the tour operation business, but also sells a considerable number of room nights to both the domestic leisure and conference segments. The hotel is managed by Hospitality Hotel Manco.

5.3.7 The Imperial Hotel Pietermaritzburg

(C-Corp lease agreement)

The Imperial Hotel in Pietermaritzburg (formerly the Protea Hotel Imperial Pietermaritzburg) was acquired by the Fund in April 2007 and features 70 accommodation keys. The hotel is positioned as the premier corporate and conference hotel in Pietermaritzburg and is therefore able to achieve high occupancy rates during weekdays.

There are likely to be additional expansion opportunities at this property. The feasibility of an expansion and repositioning of the hotel during the coming year is currently under investigation. The hotel is managed by Hospitality Hotel Manco.

5.3.8 The Richards Hotel

(C-Corp lease agreement)

This property is located down the road from the Bayshore Inn and the Protea Hotel in Richards Bay. The hotel is the largest in the city and features some 135 rooms, 35 of which were developed in the past 12 months. The hotel and the adjacent vacant land was acquired by the Fund in February 2007. The hotel caters extensively to the domestic corporate and conference markets. The hotel is managed by Hospitality Hotel Manco.

The hotel is likely to undergo a minor refurbishment during the course of the coming financial year which is geared towards protecting its market share.

5.3.9 The Rosebank Hotel

(C-Corp lease agreement)

This hotel is located in Rosebank, just south of Sandton, and comprises 318 keys. The 4-star hotel catered extensively to the corporate and contracted leisure markets. The hotel is currently closed for an extensive refurbishment and repositioning. The property is scheduled to reopen in May 2008 as one of the premier corporate hotels in Johannesburg.

The redevelopment of the hotel is likely to cost approximately R254 million. When the hotel reopens, approximately one-third of the hotel will trade in the 5-star market, whilst the remainder will be of a superior 4-star standard. The development is likely to include a top-end spa and a signature restaurant. The hotel is managed by Hospitality Hotel Manco.

5.3.10 The Winkler Hotel

(C-Corp lease agreement)

This resort is located on a 22-hectare site near White River, in the Mpumalanga Province, approximately 30 kilometres from the Kruger National Park's Numbi Gate. The hotel was established in 1968 with a total of 33 keys; between 1990 and 1997 the capacity was increased to its current 87 keys. The hotel caters primarily to the foreign leisure market.

The hotel is expected to undergo a major refurbishment during the course of the coming financial year, which will address all areas of the property. The hotel is managed by Hospitality Hotel Manco.

5.3.11 The Courtyard portfolio

(Variable lease agreement)

These hotels are located in Arcadia (Pretoria), Mowbray (Cape Town), Eastgate (Johannesburg), Rosebank (Johannesburg) and Sandton, and comprise 69, 70, 69, 83 and 69 keys, respectively. The Courtyard brand forms part of the City Lodge Hotels Limited portfolio. Hospitality's 50% stake in the acquired share block companies entitles it to a 32.2% share in the Rosebank property, a 25.8% share in the Sandton property and a 50% share in the other properties. In the case of the Rosebank and Sandton properties, the share block companies own a 64.4% and 51.6% share of the properties, respectively, while in the case of all other properties, the share block companies own 100% of the property.

The hotels have shown considerable income growth in recent years and they are likely to continue to trade above the industry norm in terms of top-line performance, as well as profitability. City Lodge Hotels Limited manages the properties under a long-term variable lease agreement and will continue to own the remaining 50% share in the share block companies.

5.3.12 Birchwood Executive Hotel and Conference Centre

(Fixed lease agreement)

This property is located on the East Rand, in close proximity to the OR Tambo International Airport, and comprises 330 keys and 24 conference rooms of varying sizes. The hotel caters primarily to the mid-scale corporate conference and training market. The Birchwood was established 10 years ago with a limited development comprising 80 rooms and a conference facility that was able to accommodate no more than 100 delegates. Over the years the hotel has grown into a complex of 330 rooms and 24 conference rooms that can accommodate up to 1 200 delegates per day. The Birchwood trades significantly in excess of the market and has enjoyed average annual occupancy levels above 75% over the past five years. The hotel is managed by the Birchwood Hotel Management Company.

As announced to unitholders on 26 July 2007, the Fund has exercised its option to acquire an expansion to the Birchwood. The expansion will, when completed, include an additional 120 accommodation keys and some 10 000m² of conference areas, which will double the current conference capacity at the hotel. The property comprising the expansion is likely to be transferred to the Fund on or about 1 November 2007, subject to formal approval by the Competition Commission.

5.3.13 Champagne Sports Resort

(Fixed lease agreement)

This resort is located in the Central Drakensberg in KwaZulu-Natal and comprises 112 hotel keys, an award-winning 18-hole championship golf course as well as a significant timeshare element. The hotel caters predominantly to corporate conference and leisure guests. The Fund acquired the hotel property; 300 timeshare weeks and the commercial areas of the timeshare component and has entered into a long-term lease agreement in respect of the property. The management company of Champagne Sports Resort has been involved with the development and operations of the resort since inception.

The Fund is currently in an advanced stage of reviewing the feasibility of several potential expansion opportunities at the resort property.

5.3.14 Kopanong Hotel and Conference Centre

(Fixed lease agreement)

This hotel and conference centre is located on the East Rand, in close proximity to the OR Tambo International Airport. The hotel was developed as a sectional title scheme and comprises some 84 three-key units totalling 252 rooms. The Fund has acquired the central facilities as well as approximately 80% of the sectional title units. The hotel caters predominantly to the domestic corporate conference market. The tenant and management company of the hotel and conference centre have been managing the hotel since the inception of the Fund.

5.3.15 Park Inn Greenmarket Square

(Fixed lease agreement)

This hotel is well positioned on Greenmarket Square in Cape Town's Central Business District and comprises 165 keys. The hotel caters to the leisure as well as corporate markets. The Fund initially acquired a 68% undivided share in the hotel. As announced to linked unitholders on 26 July 2007, the Fund has entered into an agreement to acquire the remaining 32% share in the property.

The hotel is under lease with Queensgate Holdings, and Rezidor Hotels and Resorts manages the hotel under the Park Inn brand. The transfer of the remaining share in the property is likely to be effected by the end of September 2007.

5.3.16 Premier Hotel King David

(Fixed lease agreement)

This property (previously the Protea Hotel East London) is located in East London and comprises some 80 keys. The hotel caters predominantly to the domestic corporate and conference markets. The Fund has entered into a lease agreement with the operator in respect of this property, which is now managed and marketed under the Premier Hotels & Resorts International brand.

5.3.17 Radisson Hotel Waterfront

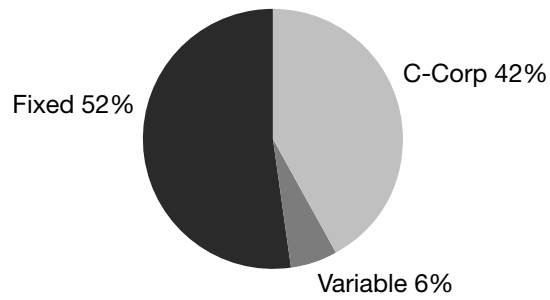
(Fixed lease agreement)

This property is situated in one of the country's prime hotel sites, on the Atlantic seaboard in Cape Town, adjacent to the Waterfront development. This sectional title scheme includes some 182 keys. The Fund initially acquired a 65% undivided share in 90 of the 182 accommodation keys. As announced to linked unitholders on 26 July 2007, the Fund has entered into an agreement to acquire the remaining 35% share in the 90 sectional title units. Once the transfer has become effective, the Fund will own approximately 50% of the accommodation keys in the scheme.

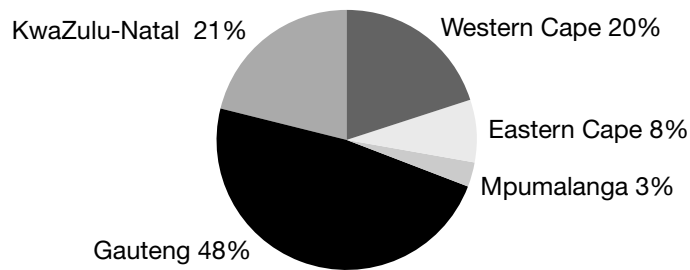
The hotel is under lease with Queensgate Holdings, and Rezidor Hotels and Resorts manages the hotel under the Radisson brand. The transfer of the remaining share in the 90 accommodation keys at the property was effective as of 14 August 2007.

5.4 Profile for the financial year ending June 2007

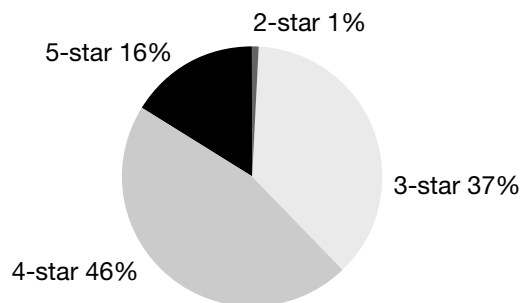
5.4.1 Property value by lease type



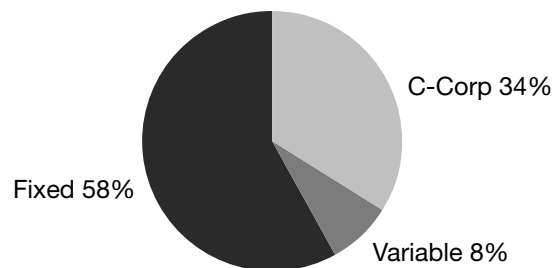
5.4.2 Property value by geographic location



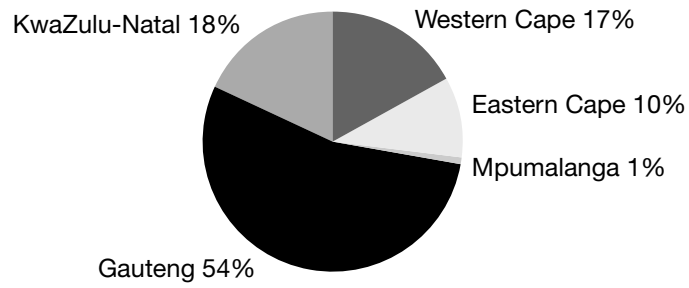
5.4.3 Property value by star grading



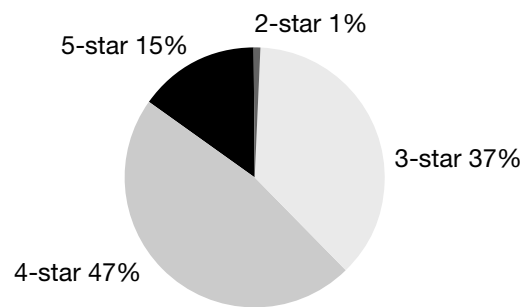
5.4.4 Gross rental income by lease type



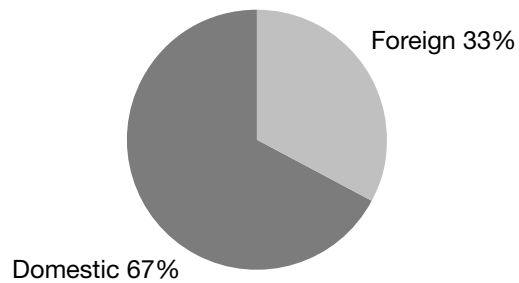
5.4.5 Gross rental income by geographic location



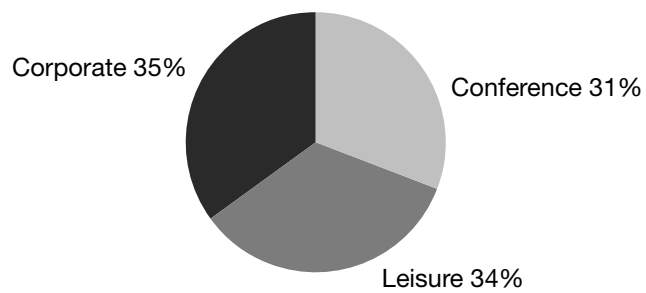
5.4.6 Gross rental income by star grading



5.4.7 Patronage by Source Market

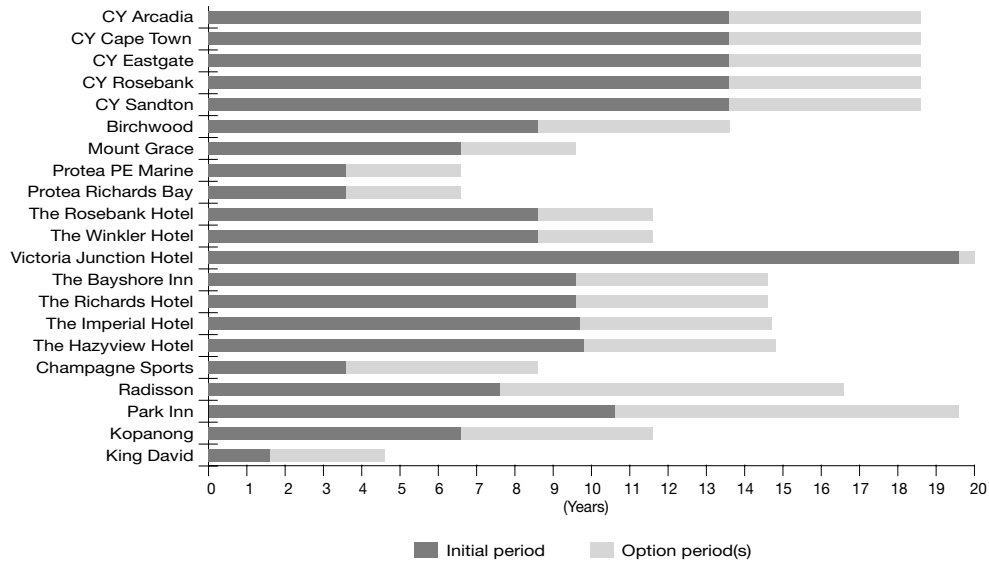


5.4.8 Patronage by market segment

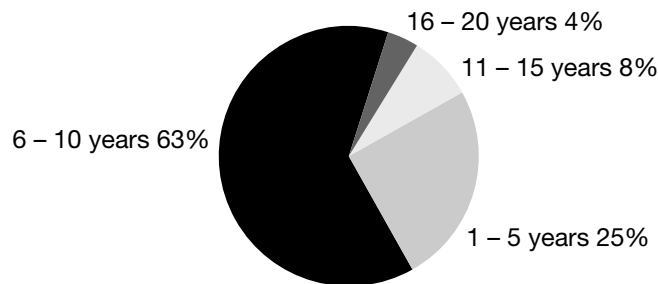


Lease expiry profile (based on existing leases) by revenue

The average lease expiry period for the Fund is 9 years and 4 months (excluding option periods). The Fund’s lease expiry schedule per property by number of years, as at 30 June 2007, is detailed as follows:



The lease expiry profile by gross rental income as at 30 June 2007 is as follows:



5.5 Average annualised property yield

The average annualised property yield for the Fund, as at 30 June 2007, assuming rental income for the 12 months prior to 30 June 2007, or an extrapolation of the rental income since acquisition, is 9.4%.

5.6 Prospects

The hospitality sector has considerable growth prospects and the Fund is well placed to benefit from this. The rights issue, the associated transactions and the increased borrowing capacity of the Fund should further position Hospitality to capitalise on buoyant market conditions.

Substantial growth in returns in the hospitality industry should continue during the next few years, given the supply and demand variables. The World Cup 2010 will furthermore increase public investment into infrastructure, skills development and the development of the tourism product as a whole, which should have a positive impact.

Domestic tourism is likely to continue to provide the backbone for the hospitality industry. Foreign tourism is likely to continue to grow at a moderate pace in the lead up to the 2010, with the country receiving increasing international media exposure.

While the Fund has a relatively small exposure of around 28% of its earnings from underlying operational income, it should nonetheless benefit from this positive environment. The various acquisitions and development projects under consideration are projected to be yield enhancing. These developments and acquisitions should come to fruition within the coming two financials years.

6. INFORMATION ON DIRECTORS AND MANAGEMENT

6.1 Details and experience of directors

The full names, ages, business addresses, occupations, functions and qualifications of the directors of Hospitality and its subsidiaries are set out below:

HOSPITALITY PROPERTY FUND LIMITED

Abdul-Karrim, Kamil Hussain (48)

Independent Non-executive Director

Qualifications: Bcompt, PDM-PPDA (University of the Witwatersrand Business School), MBA (Bond University)

Business Address: 32 Leicester Road, Kensington, 2094

Kamil Hussain Abdul-Karrim is the chairman of Hospitality's Investment Committee. He is currently working as an independent consultant focusing on the hotel industry and is a former Director of Strategic Marketing of Southern Sun.

Aminzadeh, Youseph (41)

Deputy Chief Executive Officer/Executive Director

Qualifications: BA (Webster), MBA (Trinity)

Business address: 1st Floor, Building 2, Freestone Park, 135 Patricia Road, Sandown, 2196

Youseph Aminzadeh is a member of Hospitality's Investment Committee. Youseph has had more than 20 years' experience in the tourism and hospitality industry and has written many articles on various aspects of the tourism industry.

He has also served on various tourism committees in South Africa, held the Chairmanship of South African Trainers, Consultants & Service Providers for the Hospitality Industry ("SATCHI") and sat on the Federated Hotel Industry of South Africa ("FEDHASA") Regional Management Board.

Asmal, Ridwaan (35)

Chief Financial Officer/Executive Director

Qualifications: BComm (Accounting) (University of the Witwatersrand)

Business address: 1st Floor, Building 2, Freestone Park, 135 Patricia Road, Sandown, 2196

Ridwaan Asmal joined Hospitality in February 2006 as Chief Financial Officer. Prior to joining Hospitality, he was employed by the property asset management company for Freestone Property Holdings Limited where his responsibilities included financial reporting, overseeing the financial operations of the listed property fund and facilitating acquisitions and disposals.

Madumise, Brenda Motsehoa (43)

Independent Non-executive Director

Qualifications: BProc (LLB) (University of the Witwatersrand), MBA (Bond University), Graduate Diploma in International Trade Law (University of Witwatersrand)

Business address: E105, Yellow Wood Place, Woodmead Business Park, 145 Western Services Road, Woodmead, 2128

Brenda Madumise is the Chairperson of Hospitality's BEE Committee. She is an admitted advocate of the High Court of South Africa and serves on various boards, amongst others Randgold and Exploration Company Limited, T-Sec (financial services company) and the South African Nuclear Corporation (NECSA). She is also the Chairman of the Johannesburg Hospital, Appeal Board for Council for Medical Schemes and Bayport Financial Services.

Nelson, Gerald Alan (52)

Chief Executive Officer/Executive Director

Qualifications: BSc Building (University of the Witwatersrand)

Business Address: 1st Floor, Building 2, Freestone Park, 135 Patricia Road, Sandown, 2196

Gerald Nelson is a member of Hospitality's Investment and BEE Committees. He has extensive experience in property-related activities with specific expertise in development, asset management and investment relating to both listed and directly held property vehicles. Gerald is a past Managing Director of Sycom Property Fund Managers Limited, the management company for Sycom and Chairman of the Association of Property Unit Trust Management Companies. He is currently the Managing Director of Grapnel Property Group (Proprietary) Limited.

Rogers, Andrew Stuart (38)

Chief Operating Officer/Executive Director

Qualifications: NDip – Hotel Management (Cape Town Technikon)

Business address: 1st Floor, Building 2, Freestone Park, 135 Patricia Road, Sandown, 2196

Andrew Rogers has over 17 years of operational experience in the hospitality and tourism industries. Prior to joining Hospitality in January 2007 he was a Director of Operations with Southern Sun Hotels.

During his career Andrew Rogers has been with the City Lodge Group, Cullinan Hotels and most recently he held several positions at Southern Sun Hotels.

Ross, Wilhelm Christian (62)

Independent Non-executive Director

Qualifications: CTA (University of the Witwatersrand), CA(SA) (Public Accountants and Auditors Board)

Business address: Building 5, Inanda Greens, Wierda Valley, 2196

Willy Ross was appointed as an independent non-executive director on 10 April 2007. He is the Chairman of Hospitality's Audit Committee.

Willy has over 30 years' experience in the merchant and investment banking industry and was, until his retirement, responsible for the Project and Structured Finance and Private Equity departments of Nedcor Investment Bank as well as its Risk and Compliance function.

Post-retirement Willy has accepted directorships on a number of listed and unlisted companies. These include, amongst others, Capital Property Fund (Chairman), Kagiso Media Limited and Vunani Capital Holdings (Proprietary) Limited.

Sewell, Timothy Edmund (63)

Chairman/Independent Non-executive Director

Qualifications: B Comm (University of the Witwatersrand), CA(SA)

Business address: 67 Central Avenue, Illovo, 2128

Tim Sewell is the Chairman of the board and a member of Hospitality's Audit Committee.

Tim headed corporate finance at Union Acceptances Limited (UAL), later UAL Merchant Bank Limited and then Nedcor Investment Bank Limited for many years, becoming a director in 1985. He was Divisional Director – Head of Operations of Nedcor Investment Bank Limited until his retirement. He is currently the Chairman of Sycom Property Fund Managers Limited, the asset manager of listed fund Sycom.

All the directors and Hospitality's company secretary have confirmed that they have not been involved in any or are not subject to any:

- bankruptcies, insolvencies or individual voluntary compromise arrangement;
- receiverships, compulsory liquidations, creditors voluntary liquidations, administrations, company voluntary arrangements, or any compromise or arrangement with creditors generally or any class of creditors of any company where the director is or was a director with an executive function at the time of or within 12 months preceding such events;
- compulsory liquidations, administrations, partnership voluntary arrangements of any partnership where the director was a partner at the time of or within 12 months preceding such events;
- receiverships of any asset/s of such person or of a partnership of which the individual is or was a partner at the time of or within 12 months preceding such events;
- public criticism by statutory or regulatory authorities or disqualified by a court from acting as a director or in the management or conduct of the affairs of any company; or
- offence involving dishonesty.

HPF (wholly owned subsidiary of Hospitality)**Bass, Justin Julian Philip Grant (43)**

Director

Qualifications: BSc (Urban Estate Management), FRICS

Business address: 1st Floor, Building 2, Freestone Park, 135 Patricia Road, Sandown, 2196

Justin Bass is a Fellow of the Royal Institution of Chartered Surveyors. Having trained and qualified in London in 1986, he moved to Africa in 1988.

He was part of the team which formed and successfully listed Hospitality in 2006 and has subsequently been involved in refurbishments for the Fund.

Aminzadeh, Youseph*Director*

Refer above for additional details.

Nelson, Gerald Alan*Director*

Refer above for additional details.

Details on the appointment of directors and terms of office are set out in Annexure 9.

All directors other than Youseph Aminzadeh (Dutch) and Justin Bass (British) are South African.

The names of all companies and partnerships of which the directors of Hospitality were a director or partner at any time during the previous five years are included in Annexure 6.

Extracts of the relevant provisions of Hospitality's articles with regard to:

- qualification of directors;
- remuneration of directors;
- any power enabling the directors to vote remuneration to themselves or any members of the board;
- any power enabling a director to vote on a proposal, arrangement or contract in which he is materially interested;
- any power enabling the directors, in the absence of an independent quorum of the board, to vote on remuneration, including pension or other benefits to themselves or any members of the board;
- borrowing powers exercisable by the directors and how such borrowing powers can be varied; and
- retirement or non retirement of directors under an age limit,

are set out in Annexures 5 and 9.

6.2 Directors' interests in linked units**6.2.1 Before the rights offer**

As at 14 September 2007, the directors' respective interests in Hospitality were as follows:

A linked units	Beneficial		Non-beneficial		Total	Percentage of total issued A linked units (%)
	Direct	Indirect	Direct	Indirect		
T E Sewell	30 000	—	—	—	30 000	0.1
Y Aminzadeh	—	132 496	—	—	132 496	0.3
B M Madumise	—	302 940	—	—	302 940	0.7
G A Nelson	—	1 726 528	—	—	1 726 528	3.8

B linked units	Beneficial		Non-beneficial		Total	Percentage of total issued B linked units (%)
	Direct	Indirect	Direct	Indirect		
T E Sewell	34 800	—	—	—	34 800	0.1
Y Aminzadeh	—	152 036	—	—	152 036	0.3
G A Nelson	—	1 334 814	—	—	1 334 814	2.9

6.2.2 After the rights offer

For the purposes of the table below it has been assumed that all the directors will follow their rights in terms of the rights offer and that they will accordingly own the following linked units pursuant to the rights offer:

A linked units	Beneficial		Non-beneficial		Total	Percentage of total issued A linked units (%)
	Direct	Indirect	Direct	Indirect		
T E Sewell	40 443	—	—	—	40 443	0.1
Y Aminzadeh	—	178 616	—	—	178 616	0.3
B M Madumise	—	408 390	—	—	408 390	0.7
G A Nelson	—	2 327 512	—	—	2 327 512	3.8

B linked units	Beneficial		Non-beneficial		Total	Percentage of total issued B linked units (%)
	Direct	Indirect	Direct	Indirect		
T E Sewell	46 913	—	—	—	46 913	0.1
Y Aminzadeh	—	204 958	—	—	204 958	0.3
G A Nelson	—	1 799 447	—	—	1 799 447	2.9

6.3 Directors' interests in transactions

Messrs Aminzadeh and Nelson, the co-founders of the Fund, have indirect interests in the following companies via their shareholdings in HTLAM and Grapnel respectively:

6.3.1 Hospitality Manco

Hospitality Manco is the appointed fund and asset manager of Hospitality. The shareholders of Hospitality Manco are Grapnel (53.4%) and HTLAM (46.6%).

6.3.2 Hospitality Hotel Manco

Hospitality Hotel Manco undertakes the management of the following hotels within the portfolio:

- Mount Grace Country House and Spa;
- The Bayshore Inn;
- The Hazyview Hotel;
- The Hluhluwe Hotel and Safaris;
- The Imperial Hotel;
- The Richards Hotel;
- The Rosebank Hotel; and
- The Winkler Hotel.

The shareholders of Hospitality Hotel Manco are Grapnel (53.4%) and HTLAM (46.6%).

6.3.3 Majormatic

Majormatic is a hotel operating company, which leases hotels exclusively from Hospitality.

The shareholders of Majormatic are Grapnel (53.4%) and HTLAM (46.6%).

6.3.4 Devco

Devco is a development company, which has been established to redevelop The Rosebank Hotel on a turnkey basis for Hospitality. This is in order to comply with the necessary accounting and statutory requirements to ensure that the Fund's earnings are not impaired through the loss of rental as a consequence of the hotel closure. The fee that Devco is paid to act in this capacity is equivalent to the fee that Hospitality Manco would be entitled to receive (in terms of the Asset Management Agreement between Hospitality Manco and the Fund) in respect of the development and which Hospitality Manco has elected to forfeit to ensure that the Fund does not incur any additional costs through this structure.

The shareholders of Devco are Grapnel (50%) and HTLAM (50%).

6.4 Directors' remuneration

The executive directors do not receive any fees, salaries, bonuses, allowances, or benefits from Hospitality, nor does Hospitality make any contributions to funds on their behalf. The executive directors of the Fund are employed and remunerated by Hospitality Manco out of the management fee paid by Hospitality. For the 12 month period ending 30 June 2007, the executive directors were remunerated as follows:

- Y Aminzadeh R500 000 *(Executive from November 2006)*
- R Asmal R698 674
- B Hutchison R551 114 *(Executive until October 2006)*
- GA Nelson R500 000 *(Executive from November 2006)*
- AS Rogers R577 419 *(Executive from January 2007)*

The following table sets out an analysis of the pre-tax directors' fees, for individual non-executive directors who held office at 17 September 2007, for the 12-month period ending 30 June 2007:

		Board	Audit, Risk & Remuneration Committee	Investment Committee	BEE Committee	Total
Chairman						
TE Sewell	Non-executive	125 000	20 000			145 000
Directors						
KH Abdul-Karrim	Non-executive	100 000		20 000		120 000
Y Aminzadeh	Non-executive	33 333		6 667		40 000
BM Madumise	Non-executive	100 000			9 000	109 000
GA Nelson	Non-executive	33 333		6 667	2 667	42 667
W Ross	Non-executive	25 000	5 000			30 000
		566 667	55 000	63 334	19 667	704 667

There will be no change in the remuneration of any of the directors as a consequence of the rights offer.

6.5 Appointment, remuneration and borrowing powers of directors

The relevant provisions of Hospitality's articles and board charter, which provide for the appointment, qualification and remuneration of its directors, are set out in Annexures 5 and 9. Borrowing powers of the directors are set out in Annexure 5.

7. LINKED UNITHOLDER AND INFORMATION RELATING TO HOSPITALITY LINKED UNITS

7.1 Authorised and issued share capital

7.1.1 Share capital

The authorised and issued share capital of Hospitality before and after the rights offer is set out below:

	R'000
Authorised share capital	
200 000 000 ordinary "A" shares of R0.0001 each	20.0
200 000 000 ordinary "B" shares of R0.0001 each	20.0
	40.0
Issued share capital before the rights offer	
45 687 735 ordinary "A" shares of R0.0001 each	4.6
45 687 735 ordinary "B" shares of R0.0001 each	4.6
	9.2
Issued capital after the rights offer	
61 591 087 ordinary "A" shares of R0.0001 each	6.2
61 591 087 ordinary "B" shares of R0.0001 each	6.2
	12.4

Each share is linked to a debenture, which together forms a linked unit.

7.1.2 Premium on share issue

	R'000
Premium on share issue before the rights offer (net of share issue expenses)	64 881
	64 881
Premium on share issue after the rights offer (net of share issue expenses)	246 874
	246 874

7.1.3 Debentures

	R'000
Issued capital before the rights offer	
45 687 735 A debentures at R9.40 each	429 464
45 687 735 B debentures at R9.40 each	429 464
	858 928
Issued capital after the rights offer	
61 591 087 A debentures at R9.40 each	578 956
61 591 087 B debentures at R9.40 each	578 956
	1 157 912

There have been no consolidations or subdivision of linked units over the past three years.

The directors have been granted authority to issue such number of A shares and B shares in the authorised capital of Hospitality in order to facilitate the subscriptions in terms of the rights offer.

7.2 Rights attaching to linked units

7.2.1 Issue of shares and variation of rights

With the prior approval of the Fund in a general meeting, subject to the Statutes, the approval of the Issuer Services Division of the JSE (where necessary), and Articles 3.3 and 3.4 of Hospitality's articles, any securities in the Fund authorised but unissued from time to time may be issued by the directors to such person or persons on such terms and conditions and with such rights or restrictions attached thereto as the directors may determine. Securities in the Fund which are authorised but unissued have to be offered to the existing members *pro rata* to their shareholding in the Fund, unless:

- otherwise empowered by a general meeting of members; or
- issued for the acquisition of assets.

An ordinary share in the share capital of the Fund designated as an A share may only be issued simultaneously with an A debenture issued in terms of the debenture trust deed, and such A share may only be sold or otherwise disposed of together with such A debenture as a stapled or linked unit.

An ordinary share in the share capital of the Fund designated as a B share may only be issued simultaneously with a B debenture issued in terms of the debenture trust deed, and such B share may only be sold or otherwise disposed of together with such B debenture as a stapled or linked unit.

An A share linked to an A debenture may only be issued contemporaneously with the issue of a B share linked to a B debenture in the ratio of 1:1. However, an A share linked to an A debenture and a B share linked to a B debenture need not be issued to the same person and, once issued, the A linked units and B linked units may be sold or disposed of separately.

All or any of the rights, privileges or conditions for the time being attached to any class of shares forming part of the share capital of the Fund may (unless otherwise provided by the terms of issue of the shares of that class) whether or not the Fund is being wound up, be varied in any manner with the consent in writing of the holders of not less than three-fourths of the issued shares of that class, or with the sanction of a resolution passed in the same manner as a special resolution of the Fund at a separate general meeting of the holders of the shares of that class, provided that no resolution either converting A shares to B shares or *visa versa* and/or delinking the A shares and B shares from A debentures and B debentures and allowing same to be sold or disposed of independently, shall be of any force or effect, unless with the aforesaid consent or resolution of both the holders of the A shares and the B shares.

The provisions of Hospitality's articles relating to a general meeting apply *mutatis mutandis* to any such separate general meeting except that:

- the necessary quorum will be a member or members of the class present in person, or represented by proxy and holding at least 51% of the capital paid or credited as paid on the issued shares of that class;
- if at any adjourned meeting of such holders a quorum as above defined is not present, those holders who are present will be a quorum; and
- any holder of shares of the class present in person or represented by proxy may demand a poll and, on a poll, will have 1 vote for each share of the class of which he is the holder.

7.2.2 Alterations of capital and memorandum

Subject to the provisions of the Statutes, the Fund may from time to time by special resolution *inter alia* increase its share capital by new shares of such amount, or increase the number of its shares having no par value, as it thinks expedient (Article 8.1), consolidate and divide all or any part of its share capital into shares of larger amount than its existing shares or consolidate and reduce the number of the issued no par value shares (Article 8.3), subdivide its shares, or any of them, into shares of smaller amount than is fixed by its Memorandum of Association (Article 8.6), cancel shares which at the time of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled or may cancel shares of no par value which have not so been taken or agreed to be taken (Article 8.9), alter the provisions of its Memorandum of Association with respect to the objects and powers of the Fund (Article 8.10) and convert any shares in the capital of the Fund to shares of a different class, whether issued or not, and in particular (but without derogating from the generality of the foregoing) convert ordinary shares or preference shares to redeemable preference shares (Article 8.11).

This is subject to the proviso that the number of authorised and issued A shares and B shares has to remain equal, in the ratio of 1:1.

7.3 Issue of linked units

The following linked units were issued upon listing on 16 February 2006:

36 174 723 A linked units; and

36 174 723 B linked units.

The following A linked units were issued subsequent to listing:

Date	No. of units	Price (R)	Recipient
12 February 2007	4 964 420	10,87	Nobuntu II*
21 February 2007	3 437 419	10,87	Nobuntu II*
12 April 2007	1 111 173	10,87	Nobuntu II*
Total	9 513 012	10,87	Nobuntu II*

*Nobuntu Investments II (Proprietary) Limited

The following B linked units were issued subsequent to listing:

Date	No. of units	Price (R)	Recipient
12 February 2007	4 964 420	10,60	Nobuntu II*
21 February 2007	3 437 419	10,60	Nobuntu II*
12 April 2007	1 111 173	10,60	Nobuntu II*
Total	9 513 012	10,60	Nobuntu II*

*Nobuntu Investments II (Proprietary) Limited

The following linked units were in issue prior to the rights issue:

45 687 735 A linked units; and

45 687 735 B linked units.

7.4 Hospitality trading history

A table setting out the trading history of A linked units on the JSE has been included in Annexure 7.

A table setting out the trading history of B linked units on the JSE has been included in Annexure 8.

7.5 Major linked unitholders

Insofar as is known to Hospitality, the major A linked unitholders who beneficially hold 5% or more of the issued A linked units as at 31 August 2007 are as follows:

A linked units	Number of A linked units	% of total A linked units in issue
Nobuntu Investments II (Pty) Ltd	9 513 012	20.8
Nobuntu Investments (Pty) Ltd	5 000 000	10.9
National Empowerment Fund Trust	2 523 165	5.5
	10 080 110	37.2

Insofar as is known to Hospitality, the major B linked unitholder who beneficially holds 5% or more of the issued B linked units as at 31 August 2007 is as follows:

B linked units	Number of B linked units	% of total B linked units in issue
Nobuntu Investments II (Pty) Ltd	9 513 012	20.8

To the knowledge of the directors, no single linked unitholder has effective control of Hospitality, nor did any group of linked unitholders have any formal or informal arrangement in terms of which they would act in concert to exercise control of Hospitality, as at 31 August 2007.

8. OTHER INFORMATION

8.1 Litigation statement

The Fund has a dispute with the vendor of the Protea Hotel Marine for R3.2 million. The vendor claims that the movables were not included in the purchase price and as such need to be settled separately. Attorneys have been appointed to refute the vendor's claim and defend any action instituted. No provision has been raised in the accounts at 30 June 2007.

There are no other legal or arbitration proceedings, including proceedings that are pending or threatened, of which Hospitality is aware, that may have or have had, in the twelve month period preceding the date of this circular, a material effect on the financial position of Hospitality.

8.2 Consents

The merchant bank and sponsor as well as the corporate law advisor have consented in writing and have not withdrawn their consent to their names being included in the circular in the form and context in which they are included.

The independent reporting accountants have given their consent in writing and have not withdrawn their consent to their name being included in the circular and to the issue of the circular, including the report in the form and context in which it is included.

8.3 Code of corporate practice and conduct

The directors are of the opinion that Hospitality complies with the significant principles incorporated within the King II Report on Corporate Governance, as the directors and management endorse the objective of conducting the affairs of the Fund with honesty, integrity, astuteness and prudence, permanently striving for the highest standards of ethics and good corporate practice. Details of Hospitality's practices and conduct are set out in Annexure 9.

8.4 Working capital statement

The board has considered the effects of the rights offer and is of the opinion that:

- Hospitality will be able to pay its debts in the ordinary course of business for a period of 12 months after the date of issue of this circular;

- the assets of Hospitality will be in excess of its liabilities for a period of 12 months after the date of issue of this circular. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the audited results of the Fund for the period ended 30 June 2007;
- the capital and reserves of Hospitality will be adequate for its requirements for a period of at least 12 months after the date of issue of this circular; and
- the working capital available to Hospitality will be sufficient for its requirements for a period of at least 12 months after the date of issue of this circular.

8.5 Material changes

There has been no material change in the financial or trading position of Hospitality between 30 June 2007 and 17 September 2007.

9. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given in paragraph 6.1 on pages 27 to 29 of this document, collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the circular contains all information required by law and the Listings Requirements.

10. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents or copies thereof will be available for inspection during normal business hours at the registered office of Hospitality, from the date of this circular, up to and including Friday, 26 October 2007:

- the memorandum and articles of association of Hospitality;
- the debenture trust deed;
- the audited financial statements of Hospitality for the financial period ended 30 June 2006 and for the period ended 30 June 2007;
- this circular, signed by or on behalf of the directors, and the forms of instruction registered by the Registrar;
- the letters of consent of the merchant bank and sponsor, corporate law advisor and independent reporting accountants;
- the reporting accountants' report on the financial effects of the rights offer and the *pro forma* balance sheet;
- the underwriting agreements and sworn declarations;
- independent valuation reports referred to in annexure 11;
- directors' employment contracts; and
- significant contracts.

By order of the board.

For and on behalf of

Hospitality Property Fund Limited

GA Nelson

Chief Executive Officer

Sandton

8 October 2007

Table of entitlement to rights offer linked units

The following table sets out the number of rights offer linked units to which a linked unitholder is entitled in terms of the rights offer. The table below relates equally to A and B linked unitholdings.

Linked units held	Entitlement	Linked units held	Entitlement
1	0	41	14
2	1	42	15
3	1	43	15
4	1	44	15
5	2	45	16
6	2	46	16
7	2	47	16
8	3	48	17
9	3	49	17
10	3	50	17
11	4	51	18
12	4	52	18
13	5	53	18
14	5	54	19
15	5	55	19
16	6	56	19
17	6	57	20
18	6	58	20
19	7	59	21
20	7	60	21
21	7	61	21
22	8	62	22
23	8	63	22
24	8	64	22
25	9	65	23
26	9	66	23
27	9	67	23
28	10	68	24
29	10	69	24
30	10	70	24
31	11	71	25
32	11	72	25
33	11	73	25
34	12	74	26
35	12	75	26
36	13	76	26
37	13	77	27
38	13	78	27
39	14	79	27
40	14	80	28

Table of entitlement to rights offer linked units

Linked units held	Entitlement	Linked units held	Entitlement
81	28	2 100	731
82	29	2 200	766
83	29	2 300	801
84	29	2 400	835
85	30	2 500	870
86	30	2 600	905
87	30	2 700	940
88	31	2 800	975
89	31	2 900	1 009
90	31	3 000	1 044
91	32	3 100	1 079
92	32	3 200	1 114
93	32	3 300	1 149
94	33	3 400	1 183
95	33	3 500	1 218
96	33	3 600	1 253
97	34	3 700	1 288
98	34	3 800	1 323
99	34	3 900	1 358
100	35	4 000	1 392
200	70	4 100	1 427
300	104	4 200	1 462
400	139	4 300	1 497
500	174	4 400	1 532
600	209	4 500	1 566
700	244	4 600	1 601
800	278	4 700	1 636
900	313	4 800	1 671
1 000	348	4 900	1 706
1 100	383	5 000	1 740
1 200	418	10 000	3 481
1 300	453	100 000	34 809
1 400	487	1 000 000	348 088
1 500	522	10 000 000	3 480 880
1 600	557		
1 700	592		
1 800	627		
1 900	661		
2 000	696		

Historical financial information of Hospitality

Below is the historical financial information on Hospitality for the two financial periods ended 30 June 2006 and 30 June 2007. The historical financial information is the responsibility of the directors of Hospitality.

As Hospitality only commenced operations in its current legal form on 16 February 2006, the financial information presented in this annexure, represent only two financial periods, being the twelve months ended June 2007 and the four and a half months ended June 2006.

The historical financial information has been extracted, without adjustment, from the annual financial statements of Hospitality. The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been reported on without qualification by KPMG Inc. The accounting policies applied in preparing the financial information are consistent with those applied in the previous financial period.

Consolidated group income statements for the period ended 30 June

	Notes	Audited 2007 R'000	Audited 4½ months 2006 R'000
Revenue		142 391	48 970
Expenditure		(18 921)	(6 355)
Operating profit	12	123 470	42 615
Listing expenses		—	(1 604)
Net finance costs	13	(24 206)	(10 180)
Profit before debenture interest, fair value adjustments and taxation		99 264	30 831
Recoupment of debenture interest		3 356	—
Debenture interest		(98 785)	(29 851)
Profit before fair value adjustments and taxation		3 835	980
Fair value adjustments		253 076	153 315
Revaluation of investment properties		237 857	163 642
Straight-line rent income accrual		(3 835)	(1 777)
Interest-rate swaps		19 054	(8 550)
Profit before taxation		256 911	154 295
Taxation	14	(68 351)	(47 456)
Profit for the period		188 560	106 839
Basic earnings per A share (cents)		238.50	147.67
Basic earnings per B share (cents)		238.50	147.67
		477.00	295.34
Distribution per A linked unit (cents)		100.46	37.40
Distribution per B linked unit (cents)		140.40	45.12
		240.86	82.52

Historical financial information of Hospitality

Consolidated group balance sheets at 30 June

	Notes	Audited 2007 R'000	Audited 2006 R'000
ASSETS			
Non-current assets		1 678 863	1 161 144
Investment properties	2	1 662 747	1 159 367
Straight-line rent income accrual	3	5 612	1 777
Derivative asset	9	10 504	—
Current assets		20 970	21 614
Trade and other receivables	4	13 443	17 260
Cash and cash equivalents	5	7 527	4 354
Total assets		1 699 833	1 182 758
EQUITY AND LIABILITIES			
Equity		360 289	146 303
Share capital and share premium	6	64 890	39 464
Retained income		4 815	980
Fair value reserve	7	290 584	105 859
Non-current liabilities		1 225 306	987 363
Debentures	8	858 929	680 085
Interest-bearing liabilities	9	250 570	251 272
Derivative liability	9	—	8 550
Deferred taxation	10	115 807	47 456
Current liabilities		114 238	49 092
Trade and other payables	11	58 266	19 241
Debenture interest payable		55 972	29 851
Total equity and liabilities		1 699 833	1 182 758
Net asset value per A linked unit (R)		13.34	11.42
Net asset value per B linked unit (R)		13.34	11.42

Historical financial information of Hospitality

Consolidated group statements of changes in equity

	Share capital R'000	Share premium R'000	Fair value reserve R'000	Retained income R'000	Total R'000
Issue of ordinary shares	7	43 402			43 409
Share issue expenses		(3 945)			(3 945)
Profit for the year/total income and expense for the year				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	105 859	980	146 303
Issue of ordinary shares	2	25 424			25 426
Profit for the year/total income and expense for the year				188 560	188 560
Transfer to/(from) fair value reserve – revaluation of investment properties			169 506	(169 506)	—
Transfer to/(from) fair value reserve – straight-line rental income			(3 835)	3 835	—
Transfer to/(from) fair value reserve – interest-rate swaps			19 054	(19 054)	—
Balance at 30 June 2007	9	64 881	290 584	4 815	360 289

Consolidated group cash flow statements for the period ended 30 June

	Notes	Audited 2007 R'000	Audited 2006 R'000
Cash flows from operating activities			
Cash generated from operations	16	162 477	41 215
Finance income received	13	4 240	1 586
Finance costs paid	13	(28 446)	(11 766)
Distribution to unitholders	17	(69 308)	—
Net cash inflow from operating activities		68 963	31 035
Cash flows from investing activities			
Acquisitions of investment properties	18	(269 358)	(997 502)
Net cash outflow from investing activities		(269 358)	(997 502)
Cash flows from financing activities			
Proceeds from the issue of linked units		204 270	723 494
Share issue expense		—	(3 945)
Interest-bearing liabilities raised		(702)	251 272
Net cash inflow from financing activities		203 568	970 821
Net increase in cash and cash equivalents		3 173	4 354
Cash and cash equivalents at beginning of period		4 354	—
Cash and cash equivalents at end of period		7 527	4 354

Notes to the annual financial statements for the year ended 30 June 2007

1. ACCOUNTING POLICIES

Hospitality Property Fund Limited (“the company”) is a company domiciled in South Africa. The consolidated financial statements of the company for the year ended 30 June 2007 comprise the company and its subsidiary (together referred to as the “group”). The financial statements were authorised for issue by the directors on 29 August 2007.

1.1 Statement of compliance

The financial statements and group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

1.2 Basis of preparation

The financial statements are presented in Rand rounded to the nearest thousand. They are prepared on the historical cost basis except for investment properties and certain financial instruments which are stated at fair value. Fair value adjustments (where applicable) do not affect the calculation of distributable earnings but do affect the net asset value per linked unit to the extent that adjustments are made to the carrying values of assets and liabilities.

The accounting policies set out below have been applied consistently by all group entities and are consistent with prior years.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying values of assets and liabilities that are not apparent from other sources. Significant estimates are required in the determination of future cash flows, probabilities in assessing net recoverable amounts and fair value for disclosure purposes. The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates.

1.3 Basis of consolidation

The consolidated financial statements include those of the company and its subsidiaries.

Subsidiaries are those entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the case of the company, investments in subsidiaries are carried at cost less impairment losses.

Intra-group transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1.4 Investment properties

Investment properties consist of properties held to earn rental income for the long term and subsequent capital appreciation. Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure.

Subsequent expenditure is capitalised when it is probable that future economic benefits from the use of the investment property will be increased. On redeveloping an existing investment property, all costs directly attributable to the construction (including finance costs) are capitalised. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Subsequent to initial recognition investment properties are measured at their fair value. Fair value is determined annually based on the open market value basis, using either the discounted cash flow method or the capitalisation of net income method. Gains or losses arising from changes in fair value are included in 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.

Realised profits and losses on the disposal of investment properties are recognised in profit or loss for the period and are calculated as the difference between the sale price and the carrying amount of the property. The net profit or loss on the sale of investment properties is transferred to a capital reserve. The balance relating to the sold properties, which were previously included in the fair value reserve, is also transferred to the capital reserve.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

1.5 Financial instruments

Financial instruments are initially measured at fair value, which includes transaction costs. Financial instruments include cash and cash equivalents, trade and other receivables, trade and other payables, other financial liabilities and derivative financial instruments. Any gains or losses on these financial instruments arising from changes in fair value do not affect distributable earnings.

Subsequent to initial recognition, financial instruments are measured on the basis set out below:

1.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in fair value. Cash and cash equivalents are subsequently stated at fair value.

1.5.2 Trade and other receivables

Trade and other receivables are subsequently stated at amortised cost, less impairment losses. An estimate is made for doubtful debts based on a review of all outstanding amounts on an ongoing basis. Bad debt impairments are recognised in profit or loss during the period in which they are identified.

1.5.3 Trade and other payables

Trade and other payables are stated at amortised cost.

1.5.4 Other financial liabilities

Interest-bearing borrowings and debentures are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

1.5.5 Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities. The group does not hold or issue derivative financial instruments for trading purposes. However, as the hedge relationship is not designated as a hedge for accounting purposes, the derivatives are accounted for as trading instruments.

Derivative financial instruments are subsequently stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. These gains or losses are transferred to a fair value reserve as they are not available for distribution.

The only derivative instrument held by the group is an interest-rate swap. The fair value of an interest-rate swap is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking account of current interest rates and the current creditworthiness of the swap counterparties.

1.5.6 De-recognition

The Company de-recognises a financial asset when and only when :

- a) The contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the Company;
- b) It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- c) It transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is de-recognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

1.6 Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the company has a legally enforceable right to set off the recognised amounts, and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7 Impairment

The carrying amount of the group's assets, other than investment property and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss in the period in which they are incurred.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

The recoverable amount of receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the case of receivables carried at cost and other assets, an impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

1.8 Share capital and share premium

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds.

1.9 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

1.10 Revenue recognition

1.10.1 Rental income

Revenue from the letting of investment property comprises rentals (excluding VAT) and is recognised on a straight-line basis over the term of the lease. Contingent rentals are included in revenue when the amounts can be reliably measured. Recoveries of costs from lessees, where the company merely acts as agent and makes payment of these costs on behalf of lessees, are offset against the relevant costs.

1.10.2 Finance income

Interest earned on cash invested with financial institutions is recognised on an accrual basis using the effective interest method.

1.11 Expenses

1.11.1 Letting costs

Letting costs, which include tenant installations, letting commissions and stamp duty, are written off over the period of the applicable lease, with the deferred portion being included in receivables.

1.11.2 Finance costs

Finance costs that are directly attributable to the acquisition or construction of an asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.

The amount of finance costs eligible for capitalisation is the actual finance costs on funds borrowed in respect of the specific asset less any temporary investment of those borrowings. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended uses are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred using the effective interest method.

1.12 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for when they arise on initial recognition of assets and liabilities, and the initial recognition affects neither accounting profit nor taxable income and on differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties are held as long-term income generating assets. Should any property no longer meet the company's investment criteria and be sold, any profits or losses will be capital in nature and will be taxed at rates applicable to capital gains.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies is recognised at the same time as the liability to pay the related dividend.

1.13 Segment reporting

On a primary basis the operations are organised into three segments, namely fixed leases, variable leases and C-Corp leases.

The geographic split is a secondary segment, with the major geographical segments being Gauteng, Western Cape, KwaZulu-Natal, Eastern Cape and Mpumalanga.

1.14 Forthcoming requirements

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. The following would be applicable to the group:

IFRS 7 – Financial Instruments: Disclosures (including amendments to IAS 1, Presentation of Financial Statements and Capital Disclosures)

IFRS 7 and the amendments to IAS 1 deal mainly with the disclosure of financial instruments, the related qualitative and quantitative risks associated with financial instruments and objectives, processes and policies for managing capital. To a large extent these disclosure requirements were previously covered in terms of IAS 30 and IAS 32. The standard and amendments will therefore not impact the results of the group but will result in increased disclosure relating to financial instruments in particular.

IFRS 8 – Operating segments

IFRS 8 replaces IAS 14 Segment Reporting and aligns segment reporting with the requirements of SFAS 131 (US Standard).

The standard requires an entity to adopt the “management approach” when reporting on the financial performance of its operating segments. The reporting would be based on the information that management uses internally for evaluating segment performance and when deciding how to allocate resources to operating segments. The statement will therefore not impact the results of the group but will impact the format of disclosure and measurement of the results of reportable segments.

	2007 R'000	2006 R'000
2. INVESTMENT PROPERTIES		
Balance at beginning of year	1 159 367	—
Additions at cost – acquisitions	259 306	997 502
– capitalised expenditure	10 052	—
Fair value adjustment	237 857	163 642
Property valuation	1 666 582	1 161 144
Less: Straight-line rental income accrual	(3 835)	(1 777)
Balance at end of year	1 662 747	1 159 367

The investment property portfolio serves as collateral against loans from funding banks.

Investment properties were independently valued at 30 June 2007 by JHI (Gensec Property Services Ltd). The valuation of the portfolio was split between the following registered valuers:

Mr R A Long, BSc, MBA, FRICS MIV (SA), Chartered Valuation Surveyor

Mr A D Edwards, FRICS MIV (SA), Chartered Valuation Surveyor

Mr S Mulenga, BSc, MRICS, MIV (SA), Chartered Valuation Surveyor

The valuation was undertaken using the capitalisation and net income approach. A discounted cash flow analysis was carried out to validate the market value as determined by the income capitalisation method.

A summary of the valuation is reflected in Annexure 10 of the circular.

3. STRAIGHT-LINE RENT INCOME ACCRUAL

Balance at beginning of year	1 777	—
Straight-line rent accrued during year	3 835	1 777
Balance at end of year	5 612	1 777

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

	2007 R'000	2006 R'000
4. TRADE AND OTHER RECEIVABLES		
Variable rentals	–	6 537
Sundry debtors	7 566	6 852
Recoupment of debenture interest *	3 356	–
Prepayments	1 010	3 557
VAT refund due from SARS	1 511	–
Rental debtors	–	314
	13 443	17 260
* In terms of the agreement with Nobuntu Investments II (Pty) Ltd, our BEE partner, all distributions in respect of units issued in terms of the BEE transaction announced on 18 December 2006 that relate to a period prior to the unit issue date would be refunded to HPF. As distributions are paid out on a six monthly basis, a pro-rata distribution would have to be refunded by Nobuntu Investments II (Pty) Ltd.		
5. CASH AND CASH EQUIVALENTS		
Comprises bank balances of current and call accounts	7 527	4 354
6. SHARE CAPITAL AND SHARE PREMIUM		
Share capital		
<i>Authorised</i>		
A shares – 200 000 000 ordinary shares of R0,0001 each	20	20
B shares – 200 000 000 ordinary shares of R0,0001 each	20	20
<i>Issued</i>		
A shares – 45 687 735 (2006 – 36 174 723) ordinary shares of R0,0001 each	4.6	3.6
B shares – 45 687 735 (2006 – 36 174 723) ordinary shares of R0,0001 each	4.6	3.6
	9.2	7.2
Each share is linked to a debenture, which together form a linked unit. 10% of the unissued shares are under the control of the directors of the company subject to the provisions of the Companies Act, 1973 and the requirements of the JSE.		
Share premium		
Balance at beginning of year	39 457	–
Premium on share issue	25 424	43 402
Share issue expenses	–	(3 945)
Balance at end of year	64 881	39 457
Share capital and share premium	64 890	39 464
7. FAIR VALUE RESERVE		
Revaluation of investment properties (net of deferred tax)	285 692	116 186
Revaluation of interest-rate swap	17 277	(1 777)
Revaluation of straight-line rental	(12 385)	(8 550)
	290 584	105 859
8. DEBENTURES		
Issued	858 929.42	680 084.80
A shares – 45 687 735 (2006 – 36 174 723) debentures at R9.40 each	429 464.71	340 042.40
B shares – 45 687 735 (2006 – 36 174 723) debentures at R9.40 each	429 464.71	340 042.40

Each debenture is linked to a share, which together forms a linked unit. The aggregate distribution of interest on the linked units will be not less than 99,99% of the net income as defined in the debenture trust deed. Interest distributions will be payable six-monthly.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

The debentures are redeemable at their nominal value at the instance of the debenture holders any time after 25 years after the date of allotment. The right of redemption may be exercised only by special resolution of the debenture holders. Upon passing of the special resolution the debentures shall be redeemed by the company at their nominal value on the last Friday prior to the 5th anniversary of the special resolution. The debenture trust deed is available for inspection by linked unitholders or their duly authorised agents at the registered office of the company.

The rights of debenture holders to repayment are subordinated to the claims of the unsubordinated creditors.

Subject to the subordination provisions, the debentures will be repayable if a final order of a competent court is made or an effective resolution is passed for the winding up of the company.

	2007 R'000	2006 R'000
9. INTEREST-BEARING AND DERIVATIVE LIABILITIES		
9.1 Interest-bearing liabilities	250 570	251 272
ABSA Bank Limited	250 570	125 636
Interest is payable at JIBAR plus 1.4% on a nominal annual compounded monthly basis.		
Standard Bank of South Africa Limited	—	125 636
Interest is payable at JIBAR plus 1.5% on a nominal annual compounded monthly basis.		
The above loan with ABSA Bank Limited is secured in terms of a first mortgage bond over investment properties with a market value of R1.7 million and a cession of leases and rentals in respect of bonded properties. The loan with a capital repayment of R253 million is repayable on 10 February 2012. The Standard Bank loan was repaid during the year.		
Hospitality Property Fund applies all surplus cash to its floating facilities to reduce gearing and interest rate costs. At year-end date all floating facilities were repaid.		
In terms of its articles of association the borrowing powers of the company, excluding the debentures, are limited to 65% of the valuation of the group's property portfolio.		
9.2 Derivative asset/(liability)		
ABSA Bank Limited	10 504	(8 550)
An interest-rate swap has been entered into on interest bearing liabilities of R253 million at a rate of 7.43% per annum linked to JIBAR from 10 February 2006 to 19 February 2009.		
10. DEFERRED TAXATION		
Change in fair value of investment properties	115 807	47,456
Deferred taxation on the fair value adjustment of investment properties has been calculated at 14.5% on land value and 29% on buildings.		
11. TRADE AND OTHER PAYABLES		
Retentions	3 042	13,655
Vendors on purchase of property	40 325	—
Trade payables	12 550	5,007
Tenant deposits	1 758	488
VAT payable	591	91
	58 266	19 241

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

	2007 R'000	2006 R'000
12. OPERATING PROFIT		
Operating profit is stated after charging the following:		
Auditors' remuneration		
– Audit fee	300	300
Directors' emoluments	705	450
Management fees payable to Hospitality Manco	14 347	4 397
Property and other expenses were incurred to generate rental income.		
12.1 Directors' emoluments		
Fees for services as directors		
Non-executive		
T E Sewell (Chairman)	145	73
K H Abdul-Karrim	120	60
Y Aminzadeh (paid to Hotel Tourism and Leisure Asset Management (Pty) Limited)*	40	60
J J P G Bass**	60	60
M S Hoosen (paid to Meago (Pty) Limited)	158	79
B M Madumise	109	54
G A Nelson*	43	64
W C Ross**	30	—
	705	450
Executive (remuneration packages were borne by Hospitality Property Fund Managers (Pty) Ltd)		
Y Aminzadeh*	500	—
R Asmal	699	167
B Hutchison***	551	314
G A Nelson*	500	—
A S Rogers****	577	—
	2 827	481
* Y Aminzadeh and G A Nelson were non-executive to 31 October 2006. The board was restructured and they became executive directors thereafter.		
** J J P J Bass resigned on 10 April 2007 and W C Ross was appointed in his stead.		
*** B Hutchison resigned on 31 October 2006.		
**** A S Rogers was appointed on 1 February 2007.		
13. NET FINANCE COSTS		
Finance income		
Tenants and positive bank balances	4 240	1 586
Finance costs		
Interest-bearing liabilities	(28 446)	(11 766)

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

	2007 R'000	2006 R'000
16. CASH GENERATED FROM/(UTILISED IN) OPERATIONS		
Profit before taxation	256 911	154 295
Adjusted for:		
Net finance costs	24 206	10 180
Net debenture interest	95 429	29 851
Straight-lining accrual of rental income	(3 835)	(1 777)
Fair value adjustments	(253 076)	(153 315)
Cash generated before working capital changes	119 635	39 234
Changes in working capital	42 842	1 981
Decrease/(increase) in trade and other receivables	3 817	(17 260)
Increase in trade and other payables	39 025	19 241
	162 477	41 215
17. DISTRIBUTIONS TO UNITHOLDERS		
Amount per income statement	(95 429)	(29 851)
Movement in balance sheet	26 121	29 851
	(69 308)	—
18. ACQUISITION OF INVESTMENT PROPERTIES		
Amount per balance sheet	507 215	1 161 144
Fair value adjustments	(237 857)	(163 642)
	269 358	997 502
19. CAPITAL COMMITMENTS		
Authorised and committed	445 000	989
The capital expenditure will be funded from unutilised funding facilities and capital raising proceeds.		
20. CONTINGENT LIABILITIES		
The group has a dispute with the vendors of the Protea Marine for R3.2 million. The vendor is claiming that the movables were not included in the purchase price. ManCo has appointed attorneys to refute the vendor's claim and defend any action instituted.		
21. MINIMUM LEASE RENTALS RECEIVABLE		
At 30 June 2007 the group had contracts with tenants for the following minimum lease rentals:		
Less than one year	111 570	89 706
Between one and five years	393 062	335 764
After five years	279 766	257 549
	784 398	683 019

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

	2007 R'000	2006 R'000
22. RELATED PARTY TRANSACTIONS		
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party making financial or operational decisions.		
The following transactions were carried out with related parties during the period :		
Hospitality Manco – Fund and asset manager*		
Shareholders: Grapnel (53.4%) and HTLAM (46.6%)		
Brokerage fee paid by group	4 085	19 445
Management fee paid by group	14 347	4 397
Relationship – Fund Manager and directorial		
Majormatic 194 (Pty) Ltd (C-Corp) – Hotel operating company*		
Shareholders: Grapnel (53.4%) and HTLAM (46.6%)		
Rental received by group	47 815	13 682
Relationship – shareholding of Hospitality Manco and directorial		
Hospitality Hotel Management Company (Pty) Ltd – Hotel management company*		
Shareholders: Grapnel (53.4%) and HTLAM (46.6%)		
Management fee paid by hotels	4 083	963
Reimbursement of sales team costs	686	
Relationship – shareholding of Manco & directorial		
Winkler Hotel Management Company (Pty) Ltd – Hotel management company*		
Shareholders: Grapnel (50.0%) and HTLAM (50.0%)		
Management fee paid by hotel	138	51
Relationship – shareholding of Hospitality Manco and directorial		
*Messrs Aminzadeh and Nelson have indirect interests in the above companies via their shareholdings in HTLAM and Grapnel respectively.		
Key management include the directors whose remuneration is included in note 12.		

23. FINANCIAL RISK MANAGEMENT

Financial instruments consist mainly of deposits with banks, loans from banks, trade and other receivables, trade and other payables, interest-rate swaps and debentures. In respect of the abovementioned financial instruments, book values approximate fair value. Exposure to interest rate, credit and liquidity risks arises in the normal course of business.

Credit risk

Credit risk arises from the risk that trade receivables may default. Financial performance of tenant's business monitored on an ongoing basis. In terms of the group structure there is a concentration of risk with the C-Corp leased properties. All lease agreements within the C-Corp structure are concluded with Majormatic 194 (Pty) Limited. Management receives comprehensive monthly management reports and attends the monthly meetings with the hotel operators in order to monitor performance and identify elements of credit risk.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

Interest-rate risk

The only exposure to interest-rate risk relates to the interest-bearing liabilities, details of which are disclosed in note 9.

The group has entered into a swap contract starting on 10 February 2006, whereby R253 million has been fixed (excluding margins) at 7,43% and expiring on 9 February 2009.

The fair value of the swaps is estimated at R10.5 million based on the market value of similar instruments at the balance sheet date.

Cash and cash equivalents

It is group policy to deposit short-term cash investments with reputable financial institutions.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet a financial commitment. Cash flows are regularly monitored to ensure that cash resources are adequate to meet funding commitments.

The company's borrowings are limited by its articles of association to 65% of the directors' *bona fide* valuation of the consolidated property portfolio.

The company's utilised borrowing capacity at 30 June 2007 can be summarised as follows:

	2007 R'000	2006 R'000
Property valuation	1 668 359	1 161 144
65% thereof	1 084 434	754 744
Borrowings and linked unitholders for distribution	(306 542)	(281 123)
Unutilised borrowing capacity	777 892	473 621
Facilities available in terms of existing agreements	445 000*	425 000
Gearing ratio	18.4%	24.2%

* Post-year-end this facility has increased to R588 million

24 MATERIAL CHANGES

The directors of Hospitality are not aware that material changes have taken place in the financial position or nature of the company between the financial statement date and the date of this report, other than those arising in the normal course of business and set out in the Circular.

25. DIRECTORS' COMMENTARY

25.1 Introduction

Hospitality is a property loan stock company, which invests in properties in the hotel and leisure industries. The Fund is a publicly traded company and was listed on the main board of the JSE Limited (JSE) in February 2006.

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.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

25.2 Results

The results achieved during this first full year trading period have significantly exceeded expectations.

The A linked unit distributions amount to 100.46c, as set out in the listing prospectus forecast. The B linked unit distribution equates to 140.40c, which exceeds the prospectus forecast by 17.9% and is 20.2% up on the previous year's four-and-a-half month annualised distribution.

The following table shows the actual performance compared to the previous year and the forecast as set out in the listing prospectus.

Year-end 30 June

	2007	2006		2007	
	Actual	Annualised		Prospective	
	(R'000)	Actual	Variance	forecast	Variance
		(R'000)	%	(R'000)	%
Contractual rental income	138 556	122 166		116 829	
Fund expenses	(18 921)	(16 453)		(13 776)	
Interest paid	(24 206)	(26 352)		(23 617)	
Listing expenses	—	(4 152)		—	
Profit before debenture interest	95 429	75 209		79 436	
Debenture interest	(95 429)	(77 273)		(79 436)	
Distribution – A linked unit	(39 784)	(35 024)		(36 342)	
Distribution – B linked unit	(55 645)	(42 249)		(43 094)	
Distribution – A linked unit (cents)	100.46	96.82	3.8	100.46	0.0
Distribution – B linked unit (cents)	140.40	116.80	20.2	119.13	17.9

Approximately 28% of the Fund's earnings are derived from lease income which is linked to the underlying operational performance of the hotel properties. The B linked units' outperformance is attributable to this income component having benefited from robust trading conditions in the hotel industry as well as the implementation of effective asset and hotel management structures. In addition, a number of the Fund's acquisitions have been yield enhancing.

The Fund's total returns during the reporting period significantly outperformed the listed property sector, with a total return of 38% on the A linked units and 116% on the B linked units being achieved over the period. Total returns refer to the sum of the distribution and the increase in the linked unit's market value over the year.

25.3 Regulatory reporting

Notwithstanding the above like-for-like comparison, in terms of regulatory reporting requirements, the income statement below reports on the actual 12 month period ended June 2007 compared to the actual four-and-a-half month trading period ended June 2006.

25.4 Property portfolio

The Fund's portfolio comprises interests in 21 hotel and resort properties. 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 commercial lease terms, with inflation-linked annual escalations. C-Corp lease agreements comprise approximately 50% fixed lease rental, with the remainder being 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 fully on EBITDA from the property's underlying operations.

Throughout the trading period all the properties were fully let. The average lease period is 8,8 years, with the first lease expiring in one-and-a-half years.

25.5 Valuation of properties

The Fund's portfolio was independently valued at 30 June 2007 by JHI (Gensec Property Services Limited) at R1,7 billion. This represents a growth in the portfolio value of 41,7% from the R1,2 billion value attributed in June 2006. The resulting net asset value (NAV) totalled 1 334 cents per linked unit, which represents a 16,8% year-on-year increase. At 30 June 2007 the combined units were trading at a 30% premium to NAV compared to an aggregate 41% for the listed property sector.

Notes to the annual financial statements for the year ended 30 June 2007 (continued)

25.6 Acquisitions

During the reporting period the Fund acquired five hotel properties, namely: Protea Hotel Victoria Junction (Cape Town), The Richards Hotel and The Bayshore Inn (Richards Bay), The Hazyview Hotel (Hazyview) and The Imperial Hotel (Pietermaritzburg), for a combined acquisition consideration of R245 million. These properties all fall under the Fund's C-Corp lease structure.

As announced to unitholders on 30 July 2007, the Fund has entered into agreements to acquire the Hluhluwe Hotel & Safaris (Hluhluwe, KZN) under a C-Corp lease structure, as well as further exposure to certain properties in which the Fund is already invested, comprising the remaining 32% shareholding in the Park Inn Greenmarket Square, the remaining 35% shareholding in 90 units at the Radisson Hotel Waterfront and an extension to the Birchwood Executive Hotel & Conference Centre (all fixed leases). These properties are to be acquired for a total consideration of R195 million and were independently valued at R238 million, representing a 23% surplus to acquisition price. These acquisitions are likely to become effective between August and November 2007.

25.7 Capital projects

Various refurbishment and expansion projects within the Fund's existing portfolio are under review. The Rosebank Hotel is currently undergoing a R254 million redevelopment, which is expected to be completed by May 2008. This major project commenced in July 2007 and although this has necessitated the closure of the hotel for a nine-month period, the Fund's earnings are unlikely to be impaired as the rental income has been factored into the cost of the redevelopment and will continue to be received by the Fund during this period.

Expansion opportunities at the Champagne Sports Resort, the Mount Grace Country House & Spa, and The Imperial Hotel are further under review, whilst refurbishment and/or repositioning projects are under review for The Winkler Hotel, The Richards Hotel, The Bayshore Inn and the Protea Hotel Richards Bay. Should the development projects prove to be viable, these projects are likely to be completed during the course of the coming two financial years. The development projects 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. The estimated total potential investment in these capital projects is approximately R500 million and the financial criteria which has been set is for the expenditure on aggregate to be at least earnings neutral.

25.8 Funding

In order to fund the various acquisitions and capital projects, the Fund is looking to undertake a rights offer for R500 million. In order to facilitate the rights offer, the board of Hospitality requires authority to issue linked units. This authority was obtained by way of a special general meeting which was held on 14 September 2007.

The Fund's weighted average cost of debt for the reporting period was 9.01% and the effective gearing level was 18.3% of asset value at year-end. An interest rate swap is in place in respect of interest-bearing liabilities of R253 million at an all in rate of 8.83% per annum, expiring in February 2009. At 30 June 2007 the fund had an unutilised debt facility of R192 million. The facility has subsequently been increased to R335 million.

25.9 BEE Initiatives

The Fund's BEE partners, Nobuntu Investments (Pty) Limited and Nobuntu Investments II (Pty) Limited, increased their shareholding to 26.3% of units in issue during the reporting period; together with the National Empowerment Fund Trust, this equates to a 30.4% BEE shareholding. The Fund currently exceeds the ownership target of 25% as set out in the Property Sector Transformation Charter and is strongly committed to achieving the targets as set out therein.

25.10 Units in issue/liquidity

As at year-end 91 375 470 linked units were in issue, comprising an equal number of A- and B linked units.

During the course of this reporting period an additional 19 026 024 A- and B linked units were issued to fund various acquisitions and to expand the Fund's BEE ownership component. In terms of liquidity, 38% of the Fund's units in issue were traded during the year ended June 2007.

25.11 Prospects

According to the latest Deloitte HotelBenchmark report, trading conditions within the hotel industry remain buoyant with the revenue per available room (RevPAR) across South Africa having grown 17,8% for the first six months of this year. This was largely driven by improvements in average room rates which grew by 15,3% compared to the same period last year, and to a lesser extent by increases in occupancies which have seen a growth of 2,2% so far this year. Economic and business conditions on balance remain favourable and the robust trading conditions for the hotel industry look set to continue particularly in the lead up to 2010. While the Fund has a relatively small exposure of around 28% of its earnings from underlying operational income, it should nonetheless benefit from this positive environment.

Unaudited *pro forma* financial information in respect of the rights offer

The table below sets out the *pro forma* balance sheet relating to the rights issue. The unaudited *pro forma* balance sheet, which is the responsibility of the directors of Hospitality, has been prepared for illustrative purposes only and, because of its nature, may not give a true reflection of Hospitality's financial position, changes in equity, results of operations or cash flows.

The unaudited *pro forma* balance sheet is merely intended to provide information about how the rights offer may have affected the balance sheet of Hospitality at 30 June 2007, had the rights offer been effected on that date.

Unaudited *pro forma* balance sheet at 30 June 2007

Balance sheet

	30 June 2007 Unaudited <i>pro forma</i> before the rights offer ¹	Rights offer R'000	30 June 2007 Unaudited <i>pro forma</i> after the rights offer R'000
Note	R'000	R'000	R'000
ASSETS			
Non-current assets	1 678 863	—	1 678 863
Investment properties	1 662 747	—	1 662 747
Straight-line rent income accrual	5 612	—	5 612
Derivative asset	10 504	—	10 504
Current assets	20 970	489 256	510 226
Trade and other receivables	13 443	—	13 443
Cash and cash equivalents	7 527	489 256 ²	496 783
Total assets	1 699 833	489 256	2 189 089
EQUITY AND LIABILITIES			
Equity	360 289	190 273	550 562
Share capital and share premium	64 890	181 995 ³	246 885
Retained income	4 815	8 278 ⁴	13 093
Fair value reserve	290 584	—	290 584
Non-current liabilities	1 225 306	298 983	1 524 289
Debentures	858 929	298 983 ⁵	1 157 912
Interest-bearing liabilities	250 570	—	250 570
Deferred taxation	115 807	—	115 807
Current liabilities	114 238	—	114 238
Trade and other payables	58 266	—	58 266
Debenture interest payable	55 972	—	55 972
Total equity and liabilities	1 699 833	489 256	2 189 089
Number of A linked units in issue	45 687 735		61 591 087
Number of B linked units in issue	45 687 735		61 591 087
Net asset value per A linked unit (R)	13.34		13.87
Net asset value per B linked unit (R)	13.34		13.87

Unaudited *pro forma* financial information in respect of the rights offer

Notes to the *pro forma* balance sheet

1. The "unaudited *pro forma* before the rights offer column" has been extracted without adjustment from the published audited financial statements of Hospitality as at 30 June 2007.
2. Cash and cash equivalents has been adjusted to include the cash received as a result of the rights offer and to reflect the payment of R10.7 million for the estimated rights offer expenses.
3. Share capital and share premium have been adjusted to include the 15 903 352 A shares issued at a premium of R3.46 per A share and the 15 903 352 B shares issued at a premium of R9.18 per B share, less the estimated rights offer expenses of R10.7 million which have been written off against share premium and less the income of R8.2 million earned on the claw-back.
4. Retained income has been adjusted to include the income of the claw-back, in respect of the distribution period from July 2007 to December 2007, compensating existing unitholders for the time value of money in respect of the income attributable to the new linked units issued.
5. Debentures have been adjusted for the 31 806 704 new debentures issued at R9.40 per debenture.
6. The accounting policies in accordance with IFRS were applied on the same basis as the company would normally adopt in preparing its annual financial statements.

Independent reporting accountants' report on the unaudited *pro forma* financial information in respect of the rights offer

The Directors
Hospitality Property Fund Managers (Proprietary) Limited
1st Floor, Building 2
Freestone Park
135 Patricia Road
Sandown, Sandton, 2196

18 September 2007

Dear Sirs

Independent reporting accountant's assurance report on the *pro forma* financial information of Hospitality Property Fund Limited ("Hospitality")

We have performed our limited assurance engagement with regard to the unaudited *pro forma* financial effects and the balance sheet (collectively "the *pro forma* financial information") of Hospitality set out in paragraph 4.2.1 and Annexure 3 of the Circular to be dated 8 October 2007 issued in connection with the rights offer ("Circular").

The *pro forma* financial information has been prepared for purposes of complying with the requirements of the JSE Limited ("JSE"), for illustrative purposes only, to provide information about how the rights offer ("transaction") might have affected the reported financial information had the transaction been undertaken on 30 June 2007 for balance sheet purposes.

Because of its nature, the *pro forma* financial information may not present a fair reflection of the financial position, changes in equity, results of operations or cash flows of Hospitality, after the transaction.

Directors' responsibility

The directors of Hospitality are solely responsible for the compilation, contents and presentation of the *pro forma* financial information contained in the Circular and for the financial information from which it has been prepared.

Their responsibility includes determining that the *pro forma* financial information contained in the Circular has been properly compiled on the basis stated, the basis is consistent with the accounting policies of Hospitality and the *pro forma* adjustments are appropriate for the purposes of the *pro forma* financial information as disclosed in terms of the JSE Listings Requirements.

Reporting accountant's responsibility

Our responsibility is to express a limited assurance conclusion on the *pro forma* financial information included in the Circular. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements applicable to *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the *Revised Guide on Pro Forma Financial Information* issued by the South African Institute of Chartered Accountants.

This standard requires us to comply with ethical requirements and to plan and perform the assurance engagement to obtain sufficient appropriate audit evidence to support our limited assurance conclusion, expressed below.

Our procedures consisted primarily of comparing the unadjusted audited historical financial information of Hospitality with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Hospitality, considering the evidence supporting the *pro forma* adjustments, recalculating the amounts based on the information obtained and discussing the *pro forma* financial information with the directors of Hospitality.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of Hospitality and other information from various public, financial and industry sources.

Whilst our work performed involved an analysis of the historical audited financial information and other information provided to us, our limited assurance engagement does not constitute either an audit or review of any of the underlying financial information undertaken in accordance with the International Standards on Auditing or the International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe that our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Independent reporting accountants' report on the unaudited *pro forma* financial information in respect of the rights offer

Opinion

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that in terms of Section 8.17 and 8.30 of the JSE Listings Requirements:

- the *pro forma* financial information has not been properly compiled on the basis stated,
- such basis is inconsistent with the accounting policies of Hospitality and,
- the adjustments are not appropriate for the purposes of the *pro forma* financial information as disclosed pursuant to section 8.30 of the JSE Listings Requirements.

Consent

We consent to the inclusion of this letter and the reference to our opinion in the Circular to be issued by Hospitality in the form and context in which it appears.

Yours faithfully

KPMG Inc.

Per Mickey Bove

Chartered Accountant (SA)

Registered Auditor

Director

Extracts from Hospitality's statutory documents

12. BORROWING POWERS

Subject to the paragraphs set out below, the directors may exercise all the powers of the Fund to borrow and to mortgage or encumber its undertaking and property or any part thereof and to issue debentures or debenture stock (whether secured or unsecured) and other securities (with such privileges, if any, as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise as may be sanctioned by a general meeting) whether outright or as security for any debt, liability or obligation of the Fund or of any third party.

The aggregate capital amount borrowed by the Fund is limited to an amount equal to 65% of the directors' *bona fide* valuation of the income producing assets of the Fund from time to time, provided that:

- for purposes of determining such valuation, income producing assets owned by the Fund's subsidiaries will be deemed to be owned by the Fund;
- the Fund will be deemed to have incurred any liabilities of the subsidiaries relating thereto;
- any debentures issued by the Fund and linked to the ordinary shares of the Fund will be excluded from the amount of the debt of the Fund and its subsidiaries, for the purposes thereof; and
- if the aggregate total of borrowings exceeds 65% of the market value of the Fund and its subsidiaries' assets due to a decrease in the value of the assets of the Fund and its subsidiaries, inter alia, as a result of a general or specific decrease in the market value of the Fund's income producing assets, the Fund may not incur any further borrowings until such time as the aggregate of the borrowings by the Fund and its subsidiaries is less than 65% of the market value of the Fund and its subsidiaries' assets, valued in accordance with this Article 12.2. The Fund need not however take proactive steps such as disposing of the Fund's assets to repay debt and reduce borrowings to below 65% unless the Members resolve accordingly in general meeting.

Notwithstanding the limitations noted above, the Fund may borrow an amount equal to 3% of the income producing assets as working capital, for operating expenses, acquisition or part acquisition of immovable property or other assets, renovations, extensions or any other purpose approved of by the directors.

13. DIRECTORS

- 13.1 Until otherwise determined by a meeting of members, the number of directors shall not be less than 5 or more than 12.
- 13.2 The board shall comprise a balance of executive and non-executive directors, with a majority of non-executive directors of whom a majority shall be independent of management.
- 13.3 The directors shall have power at any time and from time to time to appoint any person as a director, either to fill a casual vacancy or as an addition to the board, but so that the total number of the directors shall not at any time exceed the maximum number fixed. Subject to the provisions of Article 16.2, any person appointed to fill a casual vacancy or as an addition to the board shall retain office only until the next following annual meeting of the Fund and shall then retire and be eligible for re-election.
- 13.5 The shareholding qualification for directors and alternate directors may be fixed, and from time to time varied, by the Fund at any meeting of Members and unless and until so fixed no qualification shall be required.
- 13.6 The remuneration of the directors shall from time to time be determined by the Fund in general meeting.
- 13.7 The directors shall be paid all their travelling and other expenses properly and necessarily incurred by them in and about the business of the Fund, and in attending meetings of the directors or of committees thereof, and if any director shall be required to perform extra services or to go or to reside abroad or otherwise shall be specially occupied about the Fund's business, he shall be entitled to receive a remuneration to be fixed by a disinterested quorum of the directors which may be either in addition to or in substitution for the remuneration provided for in Article 13.6.
- 13.8 The continuing directors may act, notwithstanding any casual vacancy in their body, so long as there remain in office not less than the prescribed minimum number of directors duly qualified to act; but if the number falls below the prescribed minimum, the remaining directors shall not act except for the purpose of filling such vacancy or calling general meetings of Members.
- 13.9 A director shall cease to hold office as such:
- 13.9.1 at the annual general meeting following the date on which he or she turns 70 years and shall automatically retire and forthwith not be entitled to offer himself or herself for re-election;
 - 13.9.2 if he becomes insolvent, or assigns his estate for the benefit of his creditors, or suspends payment or files a petition for the liquidation of his affairs, or compounds generally with his creditors; or

Extracts from Hospitality's statutory documents

- 13.9.3 if he becomes of unsound mind; or
- 13.9.4 if (unless he is not required to hold a share qualification) he has not duly qualified himself within 2 months of his appointment or if he ceases to hold the required number of shares to qualify him for office; or
- 13.9.5 if he is absent from meetings of the directors for 6 consecutive months without leave of the directors and is not represented at any such meetings during such 6 consecutive months by an alternate director and the directors resolve that the office be vacated, provided that the directors shall have power to grant any director leave of absence for any or an indefinite period; or
- 13.9.6 if he is removed under Article 13.17; or
- 13.9.7 1 month or, with the permission of the directors earlier, after he has given notice in writing of his intention to resign; or
- 13.9.8 if he shall pursuant to the provisions of the Statutes be disqualified or cease to hold office or be prohibited from acting as director.
- 13.10 The Fund and the directors shall comply with the provisions of the Statutes with regard to the disclosure of the interests of directors in contracts or proposed contracts; subject thereto, no director or intending director shall be disqualified by his office from contracting with the Fund, either with regard to such office or as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Fund, in which any director shall be in any way interested, be or be liable to be avoided, nor shall any directors so contracting or being so interested be liable to account to the Fund for any profit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established.
- 13.11 No director shall, as a director, vote in respect of any contract or arrangement in which he is so interested as aforesaid, and if he does so vote, his vote shall not be counted, nor shall he be counted for the purpose of any resolution regarding the same in the quorum present at the meeting, but these prohibitions shall not apply to:
- 13.11.1 any contract or dealing with a Fund or partnership or corporation of which the directors of the Fund or any of them may be directors, Members, managers, officials or employees or otherwise interested;
- 13.11.2 any contract by or on behalf of the Fund to give to the directors or any of them any security by way of indemnity or in respect of advances made by them or any of them;
- 13.11.3 any contract to subscribe for or to underwrite or sub-underwrite any shares in or debentures or obligations of the Fund or any company in which the Fund may in any way be interested;
- 13.11.4 any resolution to allot shares in or debentures or obligations of the Fund to any director of the Fund or to any matter arising out of or consequent upon any such resolution;
- 13.11.5 any contract for the payment of commission in respect of the subscription for such shares, debentures or obligations.
- The above prohibitions may at any time or times be suspended or relaxed to any extent by the Fund in general meeting.
- 13.12 A director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat any other director is appointed to hold any office or place of profit under the Fund or whereat the terms of any such appointment are arranged, and he may vote on any such appointment or arrangement notwithstanding that at such meeting his own appointment or an arrangement in connection therewith is a matter before the board of directors.
- 13.15 Nothing in this Article contained shall be construed so as to prevent any director as a Member from taking part in and voting upon all questions submitted to a general meeting whether or not such director shall be personally interested or concerned in such questions.
- 13.17 Subject to the provisions of the Statutes, a majority of directors may remove a director at a directors' meeting before the expiration of his period of office and by an ordinary resolution elect another person in his stead. The person so elected shall hold office until the next following annual meeting of the Fund and shall then retire and be eligible for re-election.

Extracts from Hospitality's statutory documents

15. ROTATION OF DIRECTORS

- 15.1 At the first annual meeting all of the directors shall retire, and at the annual meeting held in each year thereafter 1/3 of the directors, or if their number is not a multiple of 3, then the number nearest to, but not less than 1/3 shall retire from office, provided that in determining the number of directors to retire no account shall be taken of any director who by reason of the provisions of Article 16.2 is not subject to retirement. The directors so to retire at each annual meeting shall be firstly those retiring in terms of Article 13.3 and secondly those referred to in terms of Article 13.17 and lastly those who have been longest in office since their last election or appointment. As between directors of equal seniority, the directors to retire shall, in the absence of agreement, be selected from among them by lot: Provided that notwithstanding anything herein contained, if, at the date of any annual meeting any director will have held office for a period of 3 years since his last election or appointment he shall retire at such meeting, either as one of the directors to retire in pursuance of the foregoing or additionally thereto. A retiring director shall act as a director throughout the meeting at which he retires. The length of time a director has been in office shall, save in respect of directors appointed or elected in terms of the provisions of Articles 13.3 and 13.17, be computed from the date of his last election or appointment.
- 15.2 Retiring directors shall be eligible for re-election. No person other than a director retiring at the meeting shall, unless recommended by the directors for election, be eligible for election to the office of director at any general meeting unless, not less than 7 days nor more than 14 days before the day appointed for the meeting, there shall have been given to the secretary notice in writing by some Member duly qualified to be present and vote at the meeting for which such notice is given of the intention of such Member to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.
- 15.3 Subject to Article 15.2, the Fund in general meeting may fill the vacated offices by electing a like number of persons to be directors and may fill any other vacancies. In electing directors the provisions of the Statutes shall be complied with.
- 15.4 If at any general meeting at which an election of directors ought to take place, the place of any retiring director is not filled, he shall if willing continue in office until the dissolution of the annual general meeting in the next year, and so on from year to year until his place is filled, unless it shall be determined at such meeting not to fill such vacancy.
- 15.5 For the purposes of this Article 15, "director" shall mean a non-executive director.

16. MANAGING DIRECTORS

- 16.1 The directors may from time to time appoint one or more of their number to be managing director or joint managing directors of the Fund or to be the holder of any other executive office in the Fund, including for the purpose of these Articles the office of chairman (subject to the Listings Requirements) and may, subject to any contract between him or them and Fund, from time to time terminate his or their appointment and appoint another or others in his or their place or places.
- 16.2 A managing director may be appointed by contract for a maximum period of 3 years at any one time and he shall be subject to retirement by rotation and be taken into account in determining the rotation of retirement of directors, except during the period of any such contract. The managing director shall be eligible for reappointment at the expiry of any period of appointment. Subject to the terms of his contract, he shall be subject to the same provisions as to removal as the other directors and if he ceases to hold the office of director from any cause he shall ipso facto cease to be a managing director.
- 16.3 A director appointed in terms of the provisions of Article 16.1 to the office of managing director of the Fund, or to any other executive office in the Fund, may be paid in addition to the remuneration payable in terms of Article 13.6 or 13.7, such remuneration – not exceed in a reasonable maximum in each year – in respect of such office as may be determined by a disinterested quorum of the directors.

Details of directors' other directorships and partnerships during the previous five years

Director	Current Directorships	Previous Directorships
Kamil Hussain Abdul-Karrim	Hospitality Property Fund Ltd 2005/014211/06	Spes Engineering (Pty) Ltd Spes Machines (Pty) Ltd
Youseph Aminzadeh	Aregee Investments No.99 (Pty) Ltd 2004/007221/07 Gallic Courtyard (Arcadia) Share Block (Pty) Ltd 1992/007165/07 Gallic Courtyard (Bruma Lake) Share Block (Pty) Ltd 1981/001543/07 Gallic Courtyard (Rosebank) Share Block Ltd 1982/000316/06 Gallic Courtyard (Sandown) Share Block Ltd 1972/008011/06 Gallic Courtyard (Valkenberg) (Pty) Ltd 1980/004752/07 Hodevco South Africa (Pty) Ltd 2004/020616/07 Hospitality Hotel Developments (Pty) Ltd 2005/040847/07 Hospitality Hotel Management Company (Pty) Ltd 2005/035989/07 Hospitality Property Fund Ltd 2005/014211/06 Hospitality Property Fund Managers (Pty) Ltd 2005/035257/07 Hotel Tourism and Leisure Asset Management (Pty) Ltd 2005/016280/07 HPF Properties (Pty) Ltd 2005/020743/07 Majormatic 194 (Pty) Ltd 2005/041011/07	Horwath Tourism and Leisure Consulting (Pty) Ltd Nobuntu Investments (Pty) Ltd The Bayshore Inn Management Company (Pty) Ltd The Richards Hotel Management Company (Pty) Ltd
Ridwaan Asmal	Hospitality Property Fund Ltd 2005/014211/06	
Gerald Alan Nelson	Coronib E.S.A (Pty) Ltd 2001/025723/07 Gallic Courtyard (Arcadia) Share Block (Pty) Ltd 1992/007165/07 Gallic Courtyard (Bruma Lake) Share Block (Pty) Ltd 1981/001543/07 Gallic Courtyard (Rosebank) Share Block Ltd 1982/000316/06 Gallic Courtyard (Sandown) Share Block Ltd 1972/008011/06 Gallic Courtyard (Valkenberg) (Pty) Ltd 1980/004752/07 Grapnel Property Investments (Pty) Ltd 2003/018235/07 Grapnel Property Asset Managers (Pty) Ltd 2004/032976/07 Grapnel Property Development (Pty) Ltd 2004/004039/07	Arcadia 580 Ltd Carlon Falco Development Company (Pty) Ltd Centex Office Park (Pty) Ltd Centre North Four (Pty) Ltd Centre South Properties (Pty) Ltd Craighaven Investments (Pty) Ltd Egide (Pty) Ltd Fairy Glen Properties (Pty) Ltd Foldal Properties (Pty) Ltd Four Ways Crossing Retail Centre (Pty) Ltd Freestone Property Holdings Limited (formerly Arnold Property Fund Limited) Grapnel Fund Managers (Pty) Ltd Hurlingham Property Investments (Pty) Ltd Intalex South Africa (Pty) Ltd Ishar (Pty) Ltd

Details of directors' other directorships and partnerships during the previous five years

Director	Current Directorships	Previous Directorships
Gerald Alan Nelson <i>(continued)</i>	<p>Grapnel Property Group (Pty) Ltd 1999/021789/07</p> <p>Grapnel Property Managers (Pty) Ltd 2001/005191/07</p> <p>Hospitality Hotel Developments (Pty) Ltd 2005/040847/07</p> <p>Hospitality Hotel Management Company (Pty) Ltd 2005/035989/07</p> <p>Hospitality Property Fund Ltd 2005/014211/06</p> <p>Hospitality Property Fund Managers (Pty) Ltd 2005/035257/07</p> <p>HPF Properties (Pty) Ltd 2005/020743/07</p> <p>Majormatic 194 (Pty) Ltd 2005/041011/07</p> <p>Nobuntu Investments (Pty) Ltd 2005/034642/07</p> <p>Nobuntu Investments II (Pty) Ltd 2006/031005/07</p> <p>Sycom Property Fund Managers Ltd 1986/002756/06</p> <p>Tiradeprops 59 (Pty) Ltd 1999/000444/07</p> <p>Zelpy 2199 (Pty) Ltd 2003/026745/07</p>	<p>Lot 549 Parktown (Pty) Ltd</p> <p>Marks' Square Properties (Pty) Ltd</p> <p>Morning Glen Shopping Centre (Pty) Ltd</p> <p>Paulshof Twenty Six (Pty) Ltd,</p> <p>Plan Property (Pty) Ltd</p> <p>Portion 224 Zandfontein (Pty) Ltd</p> <p>Portion 5 Hurlingham</p> <p>Extension 5 (Pty) Ltd</p> <p>Portion 6 Hurlingham</p> <p>Extension 5 (Pty) Ltd</p> <p>Pragmatic Property Investments (Pty) Ltd</p> <p>Riverwoods Office Park (Pty) Ltd</p> <p>Sammy Marks Square Management Company (Pty) Ltd</p> <p>Sandton Five Forty (Pty) Ltd</p> <p>SM Centre Two (Pty) Ltd</p> <p>Southdale Shopping Centre</p> <p>Stand 55 Halfway House (Pty) Ltd</p> <p>Stand One Nine Two</p> <p>Chamdor (Pty) Ltd</p> <p>Stead Property Investments Pty Ltd</p> <p>Sunny Devenish Place (Pty) Ltd</p> <p>Sycom Properties (Pty) Limited</p> <p>Uppark (Pty) Ltd</p> <p>Veteng Properties (Pty) Ltd</p> <p>Wendywood Shopping Centre (Pty) Ltd</p>
Timothy Edmund Sewell	<p>Hospitality Property Fund Ltd 2005/014211/06</p> <p>Sycom Property Fund Managers Ltd 1986/002756/06</p>	
Brenda Motsehoa Madumise	<p>Bayport Financial Services (Pty) Ltd 2003/025470/07</p> <p>Brenmad Consultants CC 2001/038448/23</p> <p>Council for Medical Schemes – Appeals Board</p> <p>Department of Health – Appeals Committee</p> <p>Ditswammung Investments (Pty) Ltd 2001/009079/07</p> <p>Hospitality Property Fund Ltd 2005/014211/06</p> <p>Ikwezi Empowerment Enterprises (Pty) Ltd 2004/007417/07</p> <p>Inkwenkwezi Gold (Pty) Ltd 2004/002172/07</p> <p>Khomelela Construction (Pty) Ltd 2005/014255/07</p> <p>Khomelela Group (Pty) Ltd 2005/013900/07</p> <p>Khomelela Health (Pty) Ltd 2005/019306/07</p>	<p>Omega Investment Research (Pty) Ltd</p> <p>Tlotlisa Securities (Pty) Ltd</p>

Details of directors' other directorships and partnerships during the previous five years

Director	Current Directorships	Previous Directorships
Brenda Motsehoa Madumise <i>(continued)</i>	Khomelela Investments (Pty) Ltd 2002/027074/07 Khomelela Property Investments (Pty) Ltd 2005/018655/07 Khomelela Resources (Pty) Ltd 2005/012550/07 Khomelela Technologies (Pty) Ltd 2005/015684/07 Locate In Matjabeng (Pty) Ltd 2005/039230/07 Nobuntu Investments (Pty) Ltd 2005/034642/07 Radio Igagasi 99 5 (Pty) Ltd 1997/006698/07 Radio Heart 104 9 (Pty) Ltd 1995/010037/07 Randgold and Exploration Company Ltd 1992/005642/06 Sky Bridge Communications (Pty) Ltd 2005/006892/07 South African Nuclear Energy Corporation Limited 2000/003735/06 Tanane Sweswi Investment Holding (Pty) Ltd 2002/024228/07 Ukukhanya Foods (Pty) Ltd 2000/031564/07 Ukukhanya Forest and Farm Protection Services 2001/001829/07 Ukukhanya Holdings (Pty) Ltd 2000/016670/07 Ukukhanya Hub Technologies (Pty) Ltd 2000/031357/07 Ukukhanya Husky Support (Pty) Ltd 2000/031765/07 Ukukhanya IT Services (Pty) Ltd 2001/010210/07 Ukukhanya Properties (Pty) Ltd 2001/012228/07 Ukukhanya Virtual Education (Pty) Ltd 2000/031798/07 Viking Pony Properties 359 (Pty) Ltd 2003/015623/07	
Andrew Stuart Rogers	Hospitality Property Fund Ltd 2005/014211/06	Cape Town Cenral Improvement District (Section 21 Co.) Holiday Inn (Transkei) (Pty) Ltd

Details of directors' other directorships and partnerships during the previous five years

Director	Current Directorships	Previous Directorships
Wilhelm Christian Ross	74 Mandeville Road Homeowners Association (Section 21 Co.) 2005/000011/08 Crossroads Distribution (Pty) Ltd 2003/014576/07 Empowergro Investments (Pty) Ltd 2003/031644/07 Fluxrab Investments No. 110 (Pty) Ltd 2004/013152/07 Hospitality Property Fund Ltd 2005/014211/06 Ivanma Investments (Pty) Ltd 1973/011528/07 Kagiso Media Ltd 1957/000036/06 Kagiso Ventures Ltd 1998/010926/06 Property Fund Managers Ltd 1980/009531/06 Ross Incentives (Pty) Ltd 1997/003292/07 Stomgeld Beleggings (Pty) Ltd 1965/007559/07 Vunani Capital Holdings (Pty) Ltd 1997/020641/07	Eigenbau (Pty) Ltd Eigenbau Bop (Pty) Ltd Garbrooke Investments (Pty) Ltd Investment Facility Company Five Zero Eight (Pty) Ltd Kagiso Trust Investments (Pty) Ltd Sandvik Mining and Construction RSA (Pty) Ltd Sasfin Private Equity Fund Managers (Pty) Ltd Sycom Property Fund Managers Ltd Treacle Private Equity (Pty) Ltd

Trading history of A linked units on the JSE

The trading history of A linked units on the JSE is set out below:

	High (cents)	Low (cents)	Close (cents)	Volume
Quarterly				
2006				
June	1 350	1 065	1 100	10 664 137
Monthly				
2006				
July	1 136	1 095	1 132	1 330 263
August	1 225	1 132	1 200	1 237 350
September	1 244	1 149	1 200	1 233 506
October	1 205	1 163	1 185	751 745
November	1 244	1 185	1 232	673 472
December	1 300	1 235	1 281	277 478
2007				
January	1 355	1 271	1 355	199 404
February	1 425	1 360	1 425	705 400
March	1 450	1 420	1 425	3 848 155
April	1 475	1 425	1 440	206 198
May	1 510	1 440	1 501	734 877
June	1 511	1 421	1 421	135 040
Daily				
2007				
July				
27	1 425	1 425	1 425	1 600
30	—	—	1 425	0
31	—	—	1 425	0
August				
1	1 425	1 425	1 425	18 520
2	1 400	1 400	1 400	554
3	—	—	1 400	0
6	1 400	1 400	1 400	95
7	—	—	1 400	0
8	—	—	1 400	0
10	1 428	1 400	1 428	750
13	1 400	1 400	1 400	162
14	1 400	1 400	1 400	1 000
15	—	—	1 400	0
16	—	—	1 400	0
17	1 400	1 400	1 400	20 000
20	—	—	1 400	0
21	—	—	1 400	0
22	—	—	1 400	0
23	—	—	1 400	0
24	1 395	1 395	1 395	645
27	—	—	1 395	0
28	—	—	1 395	0
29	—	—	1 395	0
30	—	—	1 395	0
31	1 409	1 395	1 409	63 560
September				
3	1 416	1 409	1 416	1 509
4	—	—	1 416	0
5	—	—	1 416	0
6	—	—	1 416	0
7	1 416	1 416	1 416	3 530
10	1 415	1 415	1 415	89 000
11	—	—	1 415	0
12	—	—	1 415	0
13	—	—	1 415	0
14	1 415	1 415	1 415	1 088

Source: I-Net Bridge.

Trading history of B linked units on the JSE

The trading history of B linked units on the JSE is set out below:

	High (cents)	Low (cents)	Close (cents)	Volume
Quarterly				
2006				
June	1 325	970	1 020	6 265 138
Monthly				
2006				
July	1 060	970	1 050	1 354 244
August	1 240	1 030	1 210	1 854 428
September	1 250	1 095	1 129	1 412 093
October	1 245	1 106	1 240	2 168 599
November	1 400	1 220	1 342	1 997 072
December	1 410	1 314	1 410	1 492 849
2007				
January	1 500	1 400	1 500	552 045
February	1 730	1 511	1 723	2 905 562
March	2 050	1 715	2 050	2 414 946
April	2 150	2 000	2 125	742 494
May	2 250	2 125	2 200	531 933
June	2 230	2 050	2 060	659 176
Daily				
2007				
July				
27	—	—	2 060	0
30	2 060	1 900	2 060	6 430
31	2 060	2 059	2 060	122 899
August				
1	—	—	2 060	0
2	—	—	2 060	0
3	2 060	1 900	2 060	34 037
6	2 060	2 060	2 060	4 700
7	—	—	2 060	0
8	2 050	1 970	2 050	24130
10	2 020	2 020	2 020	3 015
13	2 020	2 010	2 020	9 830
14	2 020	2 020	2 020	87 816
15	2 020	2 020	2 020	43 807
16	2 020	2 020	2 020	191 764
17	2 020	2 020	2 020	1 000
20	2 020	2 000	2 020	221 821
21	2 000	2 000	2 000	2 255
22	2 025	2 000	2 025	116 271
23	2 025	2 000	2 000	57 158
24	2 000	2 000	2 000	9 000
27	2 050	2 010	2 050	14 500
28	2 015	2 015	2 015	60 739
29	2 001	2 001	2 001	5 000
30	2 025	2 001	2 020	23 900
31	2 025	2 020	2 020	22 855
September				
3	2 025	2 020	2 020	29 006
4	2 020	2 020	2 020	323 400
5	2 020	2 020	2 020	77 000
6	—	—	2 020	0
7	2 030	2 020	2 030	1 381
10	2 030	2 000	2 000	119 573
11	2 040	2 000	2 000	6 427
12	1 950	1 950	1 950	3 881
13	1 950	1 950	1 950	17 300
14	2 000	2 000	2 000	13 643

Source: I-Net Bridge.

Statement in support of corporate governance

The board of Hospitality is committed to the promotion of good corporate governance as set out in the King II report on Corporate Governance in South Africa ("King II") and will continue to maintain and where necessary implement meaningful procedures and policies to continue the business of the Fund with transparency and integrity to the best interest of all its stakeholders.

1. BOARD OF DIRECTORS

1.1. Board Composition

Hospitality subscribes to a unitary board and currently consists of eight members. The size of the board is such that it ensures a wide range of skills, knowledge, views and experience to achieve the balance necessary to meet its strategic objectives.

The position of the Chief Executive Officer is separate from that of the Chairman (who is an independent non-executive director), to ensure balance of power and authority, such that no one individual has unfettered powers of decision-making.

Day-to-day management of the business vests with Hospitality's executive team. The board provides strategic direction to the Fund and monitors management's implementation of strategies and objectives.

The board accepts that it is ultimately accountable and responsible for the affairs of the Fund.

1.2. Board Appointments

In accordance with Hospitality's articles, one third of the non-executive directors shall retire from office at every annual general meeting. Retiring directors shall be eligible for re-election.

New appointments are made to the board in a formal and transparent manner and are dealt with by the board as a whole. Nominations are submitted by board members through the Chairman to the full board for consideration.

Board members should have the ability to make informed decisions. Directors are selected to the board on the basis of their personal integrity, business acumen and experience and are required to make meaningful contributions to the activities of the Fund in the interest of all its stakeholders.

No nomination Committee will be established for the purpose of new appointments to the board, unless decided otherwise due to specific circumstance.

Retirement age for directors is 70 years of age.

2. BOARD COMMITTEES

In accordance with Hospitality's articles, the board is authorised to form Committees to assist it in the execution of its duties, powers and authorities. The Chairman of each of the Committees accounts to the board for its activities and makes recommendations to the board.

The board has three standing Committees, namely:

2.1. Audit Committee

The Audit Committee meets at least quarterly and also undertakes the roles of remuneration and risk Committees. The Committee comprises WC Ross (Chairman) and TE Sewell. The Chairman of the board is not eligible to be appointed as Chairman of this Committee.

The Committee's primary objectives are:

- (i) to provide the board with additional assurance regarding the safeguarding of assets, the operation of adequate systems, control processes and preparation of accurate financial reporting and statements in compliance with all applicable legal and Listing Requirements and accounting standards;
- (ii) to set the principles for recommending the use of the accounting firm or the external auditor for non-audit purposes; and
- (iii) to evaluate the independence and effectiveness of the external auditor and consider any non-audit services rendered by such auditors as to whether it materially impairs their independence.

2.2. BEE Committee

The Committee comprises one independent non-executive director, namely Ms BM Madumise and one executive director, namely Mr GA Nelson.

Meetings of the Committee are held as frequently as required, but members meet at least quarterly.

Statement in support of corporate governance

The Committee is mainly responsible for:

- (i) overseeing general compliance with the Property Transformation Charter and to evaluate and recommend to the board an appropriate BEE structure which fulfils the objectives of the Property Transformation Charter and is in the best interest of all stakeholders; and
- (ii) monitoring ongoing BEE initiatives and implementation of the relevant policies and procedures to achieve the Property Transformation Charter requirements.

2.3. Investment Committee

The Committee comprises Messrs KH Abdul-Karrim (Chairman), Y Aminzadeh and GA Nelson. Until the recent resignation of M S Hoosen, the Committee comprised an equal number of executive and non-executive board members. A replacement non-executive board member will be appointed to the Committee in due course.

The Committee meets on an “*ad hoc*” basis as required, to consider proposals for the acquisition, sale and redevelopment of investment properties. Proposals believed to be feasible are recommended to the board.

3. DIRECTORS’ DEALINGS AND PROFESSIONAL ADVICE

The Fund will operate a policy of prohibiting dealings by directors and certain other managers and staff members in periods immediately preceding the announcement of its interim and year-end financial results, any period while the Fund is trading under cautionary announcement and at any other time deemed necessary by the board.

4. THE COMPANY SECRETARY

The Company Secretary provides the board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interest of the Fund. The Company Secretary will provide a central source of guidance and advice to the board, and within the Fund, on matters of ethics and good corporate governance.

5. COMMUNICATION

Hospitality meets regularly with institutional linked unitholders and investment analysts and provides presentations on the Fund and its performance.

Asset and property management information

Details of the asset manager

A specialist asset management team with commensurate skills administers and manages the Fund through Hospitality Manco. The asset management team comprises specialists in the hospitality and property industries and have an abundance of experience in all facets of the sectors.

Non-performance clauses are in place for variable and C-Corp lease agreements and underlying contractual management arrangements. As a result, the asset managers are sufficiently empowered to monitor performance and ensure that corrective action is taken when required. The lease agreements allow for rental deposits and cancellation in the event of non-payment.

Approximately 58% of the Fund's revenue is based on fixed leases with operators while an estimated 34% of the Fund's revenue is derived through C-Corp lease agreements. The underlying management contracts for these leases allow for the approval of budgets, capital expenditure, senior management appointments and policies. In addition, the management fees payable to the management companies engaged in operating the hotels are highly incentive-based and allow for cancellation in the event of underperformance. The remaining 8% of the Fund's revenue is earned from variable lease agreements.

1. Analysis of Shareholders

The shareholders of Hospitality Manco are Grapnel (53.4%) and HTLAM (46.6%).

2. Directors and officers

The executive directors of Hospitality Manco are Messrs Y Aminzadeh and GA Nelson.

3. Business address

1st Floor
Building 2
Freestone Park
135 Patricia Road
Sandown
2196

4. Terms of the contract

Salient features of the Hospitality Manco agreement:

The period of the Hospitality Manco appointment shall be an indefinite period, terminable by Hospitality or Hospitality Manco on 6 years' written notice. Notwithstanding this, Hospitality may give six months' written notice of termination provided, however, that it compensates Hospitality Manco for such early termination and that the appointment may not be terminated within the first 6 years. However, in accordance with the Listings Requirements, the linked unitholders may at any time pass an ordinary resolution requiring Hospitality to terminate the Hospitality Manco agreement. If Hospitality terminates the Hospitality Manco agreement other than due to a material breach by Hospitality Manco, Hospitality shall pay to Hospitality Manco compensation based on the value of Hospitality Manco to be calculated as follows:

- Hospitality Manco's cashflow from operations (excluding brokerage fees and listing expenses paid to Hospitality Manco on the listing of Hospitality on the JSE and management fees paid to the shareholders of Hospitality Manco) for the previous twelve months escalated by CPIX (for the previous twelve months) for a period of six years, discounted by the average yield of the fund over the previous 12 months which cashflow from operations for each financial year is calculated as the profit before taxation for Hospitality Manco adjusted for non cashflow items and changes to working capital less taxation paid; plus
- The reasonably anticipated costs to Hospitality Manco in terminating ongoing contracts for staff, premises, equipment and any other similar contractual costs and the amount owing in respect of shareholders' loans.

Hospitality has an option to purchase the shares and claims in Hospitality Manco after three years based on the value of Hospitality Manco which would be calculated using the above calculation. Hospitality Manco shareholders have a put option to the Fund in the event that Hospitality disposes of a material portion (greater than 50% by value) of its portfolio on the same basis.

Asset and property management information

5. Scope of the asset manager's duties

Hospitality Manco manages the Fund and the Hospitality property portfolio on behalf of the Fund, including the fund management, asset management, general management, administrative and secretarial work, including, but not limited to all acquisitions, development and disposals of the properties including negotiations and finalisation of the agreements, the appointment, removal and replacement of property managers, the formulation of investment management and letting strategies and management systems and the payment of all distributions and dividends to linked unitholders. Further to this, in terms of the Hospitality Manco agreement, Hospitality Manco may not provide any of the above mentioned services to any third party during the currency of the Manco agreement, without the prior written consent of Hospitality.

6. Remuneration in terms of the agreement

Hospitality Manco is remunerated as follows:

- a monthly fee equivalent to 1/12th of 1% of the monthly aggregate of the average daily closing price of the linked units on the JSE, multiplied by the number of linked units in issue plus 1/12th of 1% of the monthly aggregate of the loans contracted by the Fund;
- a fee equivalent to 2% of the acquisition price of any property or linked units or shares in an acquired company;
- a development fee of 2% of the total development costs on any developments or refurbishments;

7. Details of the property manager/s

Protea Hotels

Protea Hotels is Africa's largest hotel group by number of properties, with some 126 hotels in 12 countries falling within the Protea Hotels stable. The company was founded in 1984 and has grown its portfolio and brands since. At the 2005 and 2006 World Travel Awards, Protea Hotels were voted best hotel brand in Africa by the world's travel industry. The company concluded a BEE transaction in 2005, which resulted in a 54% BEE shareholding in the company. It was announced in March 2007 that the Stella Group from Australia was set to acquire Protea Hotels. The Stella Group is the largest integrated travel company in Australia and New Zealand, with some 15 000 hotel rooms under management and 1 400 retail and travel outlets worldwide.

Hospitality Hotel Management Company (HHMC)

HHMC was set up upon the listing of the Fund to manage The Rosebank Hotel as it was to undergo substantial repositioning. It is pleasing to report that The Rosebank Hotel has since shown exceptional performance. Advantage was taken of the opportunity presented in other properties in the Fund to appoint HHMC as managers of these hotels. Once the Hluhluwe Hotel & Safaris is transferred to the Fund, HHMC will manage eight hotels. The management team is headed by Andrew Rogers, with substantial supporting skills acquired in areas such as sales and marketing, finance, food and beverages, information technology, engineering and analyses.

City Lodge Hotels

The JSE listed City Lodge Hotels Limited ('City Lodge') is one of South Africa's leading hotel groups, with 40 hotels under management, predominantly in the limited service segment. The group's hotel brands include Road Lodge, Town Lodge, City Lodge and Courtyard. Hospitality co-owns five Courtyard properties in its portfolio with City Lodge. The Courtyards in Arcadia, Cape Town and Eastgate are fully owned by Hospitality and City Lodge, whilst the Rosebank and Sandton Courtyards are majority owned through a sectional title scheme.

The Rezidor Hotel Group

The Rezidor Hotel Group is listed on the Brussels stock exchange and is one of Europe's leading hotel management companies. The group's portfolio includes some 280 hotels in operation and under development with approximately 60 000 hotel rooms. The group manages and franchises under the Radisson, Park Inn, Regent, Country Inn and Missoni brands. The Fund's tenant at the Radisson Hotel Waterfront and the Park Inn Greenmarket Square, Queensgate Holdings (and subsidiaries), have entered into a management agreements in respect of the properties with the Rezidor Hotel Group.

Premier Hotels & Resorts International

The King David Hotel in East London is managed by Premier Hotels & Resorts International, which manages five hotels in South Africa, the majority of which are situated in the Eastern Cape. The management company has been managing the hotel since the listing of the Fund, yet the hotel was rebranded in mid-2006 (previously Protea Hotel East London).

Asset and property management information

Champagne Sports Resort

The tenant and management company of Champagne Sports Resort has been involved with the development and operations of the resort since inception and the company was the main seller entity to the Fund upon listing. The management company also manages the timeshare component of the resort on behalf of the Champagne Shareblock Company.

Birchwood Hotel Management Company

The tenant and management company at the Birchwood Executive Hotel & Conference Centre is the Birchwood Hotel Management Company. The same executive team has managed the property since its inception and has continued operations through its nine development phases. The exclusive focus of the management company is the management of the Birchwood.

Kopanong Hotel and Conference Centre

The tenant and hotel management company at Kopanong Hotel & Conference Centre has been managing and operating the hotel since the listing of the Fund. The company also manages the rental pool of the sectional title units at the hotel.

Details of the individual properties in Hospitality's property portfolio

No	Property name	Property Title ⁽³⁾	HPF Ownership	Property address	Location	Star grading	No. of rooms ⁽²⁾	Agreement type	Building area m ²	Vacancy by building area 30 June 2007 ⁽¹⁾	Value attributed by valuer 30 June 2006 or Initial cost (Rm) ⁽⁴⁾⁽⁵⁾	Value attributed by valuer 30 June 2007 (Rm) ⁽⁵⁾
1.	Birchwood Executive Hotel and Conference Centre	Freehold	Direct	120 North Rand Road, Bartlett, Boksburg	Gauteng	3	330	Fixed Lease	24 600	0	299 000	347 000
2.	Champagne Sports Resort	Freehold	Combined Share block and Direct	R600, Central Berg, KwaZulu Natal	KwaZulu Natal	4	112	Fixed lease agreement	12 000	0	144 800	170 000
3.	Courtyard Arcadia	Freehold	Share block	Cnr Park and Hill Streets, Arcadia, Pretoria	Gauteng	4	69	Variable lease agreement	2 438	0	21 750	28 000
4.	Courtyard Cape Town	Leasehold	Share block	Liesbeek Avenue off Liesbeek Parkway, Mowbray, Cape Town	Western Cape	4	70	Variable lease agreement	1 400	0	7 000	8 500
5.	Courtyard Eastgate	Freehold	Share block	Zulberg Close, Oppenheimer Road, Bruma Lake, Johannesburg	Gauteng	4	69	Variable lease agreement	2 438	0	14 175	26 000
6.	Courtyard Rosebank	Freehold	Share block Sectional Title	Cnr Oxford Road and Tyrwhitt Ave., Rosebank, Johannesburg	Gauteng	4	83	Variable lease agreement	1 916	0	16 300	21 800
7.	Courtyard Sandton	Freehold	Share block Sectional Title	130 Rivonia Road, Sandown, Sandton	Gauteng	4	69	Variable lease agreement	960	0	10 844	18 900
8	Kopanong Hotel and Conference Centre	Freehold	Sectional Title	243, Glen Gory Road, Norton Estates, Benoni	Gauteng	4	252	Fixed lease agreement	4 878	0	83 925	97 000

Details of the individual properties in Hospitality's property portfolio

No	Property name	Property Title ⁽³⁾	HPF Ownership	Property address	Location	Star grading	No. of rooms ⁽²⁾	Agreement type	Building area m ²	Vacancy by building area 30 June 2007 ⁽¹⁾	Value attributed by valuer 30 June 2006 or Initial cost (Rm) ⁽⁴⁾⁽⁵⁾	Value attributed by valuer 30 June 2007 (Rm) ⁽⁵⁾
9.	Mount Grace Country House & Spa	Freehold	Combined Share block and Direct	Old Rustenburg Road, Magaliesburg, Gauteng	Gauteng	5	81	C-Corp lease agreement	10 416	0	134 500	139 000
10.	The Park Inn Hotel	Freehold	A direct 68% undivided share	10 Greenmarket Square Road, Cape Town	Western Cape	3	165	Fixed lease agreement	17 258	0	55 000	64 000
11.	Premier Hotel King David	Freehold	Direct	Cnr Currie Str and Inverleith Terrace, East London	Eastern Cape	3	80	Fixed lease agreement	9 000	0	52 000	57 000
12.	Protea Hotel Marine Port Elizabeth	Freehold	Direct	Marine Drive, Summerstrand, Port Elizabeth	Eastern Cape	4	98	C-Corp lease agreement	11 555	0	72 500	77 000
13.	Protea Hotel Richards Bay	Freehold	Direct	Cnr Davidson and Launder Lanes, Meerensee, Richards Bay	KwaZulu Natal	4	66	C-Corp lease agreement	5 218	0	40 000	45 000

Details of the individual properties in Hospitality's property portfolio

No	Property name	Property Title ⁽³⁾	HPF Ownership	Property address	Location	Star grading	No. of rooms ⁽²⁾	Agreement type	Building area m ²	Vacancy by building area 30 June 2007 ⁽¹⁾	Value attributed by valuer 30 June 2006 or Initial cost (Rm) ⁽⁴⁾⁽⁵⁾	Value attributed by valuer 30 June 2007 (Rm) ⁽⁵⁾
14.	Protea Hotel Victoria Junction	Freehold	An 84% share in the sectional title units in the sectional title scheme	Cnr Somerset and Abenezer Rds, Cape Town	Western Cape	4	172	C-Corp lease agreement	8 878	0	106 600	123 000
15.	Radisson Hotel Waterfront	Freehold	A 65% undivided share in the sectional title units in the sectional title scheme known as The Waterclub Court	Beach Road, Granger Bay, Waterfront	Western Cape	5	182	Fixed lease agreement	2 287	0	98 000	130 000
16.	The Bayshore Inn	Freehold	Direct	The Gully, off Hibberd Drive, Meerensee, Richards Bay	KwaZulu Natal	2	102	C-Corp lease agreement	3 460	0	12 000	23 500
17.	The Hazyview Hotel	Freehold	Direct	R 40 Pad 38 km after White River, 7 km before Hazyview	Mpumalanga	3	87	C-Corp lease agreement	6 755	0	40 500	46 500
18.	The Imperial Hotel	Freehold	Direct	224 Loop Street, Pietermaritzburg	KwaZulu Natal	3	70	C-Corp lease agreement	9 500	0	24 600	36 000

Details of the individual properties in Hospitality's property portfolio

No	Property name	Property Title ⁽³⁾	HPF Ownership	Property address	Location	Star grading	No. of rooms ⁽²⁾	Agreement type	Building area m ²	Vacancy by building area 30 June 2007 ⁽¹⁾	Value attributed by valuer 30 June 2006 or Initial cost (Rm) ⁽⁴⁾⁽⁵⁾	Value attributed by valuer 30 June 2007 (Rm) ⁽⁵⁾
19.	The Richards Hotel	Freehold	Direct	3 Hibberd Drive, Meerensee, Richards Bay	KwaZulu Natal	4	135	C-Corp lease agreement	6 713	0	61 800	70 300
20.	The Rosebank Hotel	Freehold	Direct	Cnr Tyrwhitt and Sturdee Avenues, Rosebank	Gauteng	4	318	C-Corp lease agreement	17 700	0	100 000	129 000
21.	The Winkler Hotel	Freehold	Direct	Numbi Road, White River, 1240	Mpumalanga	3	87	C-Corp lease agreement	3 073	0	11 350	10 800
	Total						2 697		41 484	0	1 406 644⁽⁴⁾	1 668 300

1. All properties forming part of the portfolio are currently fully let.

2. The number of rooms as indicated by the table above are the total number of rooms of the respective hotel buildings, notwithstanding the fact that in certain instances Hospitality owns less than 100% of the hotel.

3. The detailed property descriptions for each of the properties are to be obtained from the valuers reports, which are available for review at the Fund's registered offices.

4. If a property was acquired subsequent to 30 June 2006, the initial cost of the property is reflected in this column.

5. The independent valuations as at 30 June 2006 and 30 June 2007 were completed by JHI (Gensec Property Services Ltd). The following registered valuers conducted the valuations for JHI: Mr RA Long (BSc, MBA, FRICS MIV (SA), Chartered Valuation Surveyor), Mr AD Edwards (FRICS MIV (SA), Chartered Valuation Surveyor) and Mr S Mulenga (BSc, MRICS, MIV (SA), Chartered Valuation Surveyor).

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