

## Reviewed Results for the year ended 30 June 2011 and interest payment declaration

### Comments

#### 1. Introduction

While the South African hotel industry benefitted from higher demand during the first ten days of the financial year at the end of the FIFA Soccer World Cup 2010™ the remainder of the year was characterised by difficult trading conditions. According to STR Global, the industry reported a drop in occupancy of 6.6% to 53.9% and a decrease in average room rates (“ARR”) of 3.4% to R866 for the 12 months to June 2011. The Fund’s trading figures for that portion of its portfolio which is subject to variable rental income (i.e. dependant on operational earnings) reflected a similar trend with a decline in occupancy of 2.6% to 51.4% and a drop in ARR of 3.8% to R913.

The pressure currently experienced by hotel owners across the country is mainly as a result of the significant excess in room stock that came onto the market in the run up to the 2010 FIFA Soccer World Cup™. The abnormal increase in supply has led to aggressive price competition among hotel owners to secure business.

Coupled with the subdued trading conditions, hotel owners are being forced to absorb increases in overhead costs which are currently significantly ahead of inflation. In particular, escalations in administered prices such as electricity, water and municipal rates have had a marked effect on earnings. In contrast to commercial property owning entities that are able to pass this additional cost on to tenants, the heavily competitive trading environment precludes hotels from increasing room rates to absorb cost increases. As a result, the Fund has experienced a direct reduction in its variable rentals.

Management is cognisant of the current financial pressures on tenants and continuously monitors and interacts with them in order to evaluate the serviceability of fixed and variable rentals.

#### 2. Results

The distribution per combined linked unit declined by 11.4% compared to the previous financial year. The A-linked units distribution of 122.11 cents grew by 5%, in line with the Fund’s distribution structure, resulting in the distribution on the B-linked unit decreasing by 33.1% to 58.90 cents.

Rental income grew by 4.2% mainly as a result of the acquisition of the Arabella portfolio. Whilst transfer of the Arabella portfolio was only effective from 13 May 2011, an agreement had been reached with the seller to pay R17.5 million as compensation for the delay in transferring the property to off-set the differential between the rights offer proceeds that were invested at call rates and the anticipated return from the property. The standing portfolio however reflected a year-on-year decline in rental income primarily as a consequence of the higher FIFA 2010 World Cup revenues in the prior year.

Fund expenses declined by some R8.5 million. This was due to savings achieved through the internalisation of the Fund’s management company (Manco) in December 2009 as well as the once off bad debt write-off incurred in 2010 following the Queensgate Group’s default on the leases at Radisson Blu Waterfront and the Park Inn Greenmarket Square. Net finance costs increased by R4.2 million due to the additional debt to fund the Arabella acquisition, various capital expenditure on refurbishments and the cost of the Manco acquisition. This was however, partially off-set by interest earned on the proceeds of the rights issue concluded during November 2010.

The following table reflects the operating financial results for the year ended 30 June 2011 compared to the corresponding previous period.

##### 12 months to 30 June

	2011 (R'000)	2010 (R'000)	Variance (R'000)	Variance (%)
Contractual rental	277 043	265 902	11 141	4.2
Fund expenses	(21 051)	(29 577)	(8 526)	(28.8)
Net finance costs	(112 857)	(108 593)	4 264	3.9
Profit before debenture interest	143 135	127 732	15 403	12.1
Recoupment of debenture interest **	17 534	1 194	16 340	1 368.5
Debenture interest	(160 669)	(128 926)	31 743	24.6
Distribution – A-linked unit	(108 389)	(73 399)	34 990	47.7
Distribution – B-linked unit	(52 280)	(55 527)	(3 247)	(5.8)
Distribution – A-linked unit (cents)	122.11	116.30	5.81	5.0
Distribution – B-linked unit (cents)	58.90	87.98	(29.08)	(33.1)
Combined distribution – unit (cents)	181.01	204.28	(23.27)	(11.4)

\*\*Refer to item 4 below of the commentary.

Approximately 85% (2010: 79%) of the Fund’s revenue during the year was derived from fixed rentals with CPI-linked escalations and the remaining 15% (2010: 21%) comprised variable rentals which are linked to underlying hotel operational performance. This year-on-year change was an unintended consequence of current hotel trading conditions.

#### 3. Acquisition of Arabella Portfolio

Transfer of the immovable properties and hotel businesses referred to as the “Arabella Portfolio” from Arabella South Africa Holdings (Pty) Limited and its subsidiaries to HPF Properties (Pty) Limited (“HPF Properties”) was effected on 13 May 2011. The acquisition comprises The Westin Cape Town (“Westin”) adjacent to the Cape Town International Convention Centre and the Arabella Hotel and Spa (“AHS”) in Kleinmond close to Hermanus as well as 460 hectares of undeveloped land adjoining AHS (“Phase 2 land”). The total purchase consideration amounted to R756 million which includes working capital liabilities of approximately R26 million for the hotels which will be assumed by HPF Properties. The acquisition was funded from the proceeds of the R490 million rights offer and new debt facilities with Nedbank.

The Fund has treated the Phase 2 land (subject to obtaining the development rights which have been applied for) as “properties held for trading”. Once the development rights have been secured, the Fund will market and sell this development land with a view to realising a profit which will be classified as distributable income.

#### 4. Rights issue

The Fund successfully concluded a rights offer on 15 November 2010. A total consideration of R490 million was raised through the issue of 21 030 043 A-linked units at R12.80 each and 21 030 043 B-linked units at R10.50. These funds were allocated to the partial settlement of the Arabella Portfolio purchase consideration.

An amount of R17.5 million of the rights offer proceeds was allocated as a recoupment of debenture interest in respect of the period 1 July 2010 to 14 November 2010 as the rights issue units received the full distribution for the six months to 31 December 2010 despite being in issue for only 1.5 months. This recoupment was necessary in order to ensure that the distributions of pre rights issue unitholders were not unjustifiably compromised.

#### 5. Property portfolio

The Fund’s portfolio comprises interests in 26 hotel and resort properties in South Africa. As at 30 June 2011 the portfolio was valued at R3.9 billion resulting in a deficit on revaluation of investment properties of R415.6 million being recorded in the statement of comprehensive income.

The net asset value per linked unit as at 30 June 2011 was R12.71 (excluding deferred taxation), a decrease of 17.2% from 2010 primarily as a consequence of a general write-down in valuations of the standing portfolio. The weighted average lease expiry period is 10.9 years.

#### 6. Development and capital projects

The Fund invested a total of R131 million in refurbishments and capital expenditure during the year under review.

On completion of these projects, all F&V lease properties will have been refurbished. This will ensure that the quality of the Fund’s properties will remain of the highest standard and will provide a solid platform to benefit from improved trading once the market recovers.

#### 7. Borrowings

The Fund’s interest-bearing liabilities increased by R432 million to R1.74 billion during the reporting period. The additional debt was utilised to fund the refurbishments and a portion of the Arabella Portfolio acquisition. The average cost of borrowings for the group was 8.91% (2010: 10.16%) for the year ended 30 June 2011. The gearing ratio (total interest-bearing liabilities/investment property value) at year-end was 44% (2010: 39%). For the 2011 financial year, 60% of the group’s borrowings were subject to fixed interest rates. The group’s facilities with financial institutions as at 30 June 2011 was R1.9 billion, with R1.7 billion being utilised at year-end.

Approximately R1.32 billion of the Fund’s current debt facility with ABSA expires in February 2012. The majority of this facility was secured on listing in 2006 at a rate of three-month JIBAR + 130 bps. The Fund is currently in discussions with ABSA and other financial institutions, regarding the renewal of this facility and is reviewing the proposals received. Given the substantial increase in banks’ lending margins in the past few years this facility is likely to be renewed at a higher margin. The R607 million Nedbank debt facility expires in tranches of R176.3 million in July 2015 and R430.2 million in May 2016.

#### 8. Unitholders

During the year some 21.1% of the A-linked units and 36.1% of the B-linked units were traded on the JSE Limited. The Fund has a BEE ownership component of 15.8% of the units in issue.

#### 9. Prospects

The hotel industry is in an extremely weak trading cycle exacerbated by an oversupply of room stock, which has resulted in a set-back in Hospitality’s earnings growth. The continuation of these trading conditions, together with the anticipated higher refinancing costs through the renewal of a portion of its debt facilities, as well as higher than inflationary increases in municipal rates and electricity costs, will continue to impair earnings over the next 12 months.

Distributions in the short term will remain under pressure, but the Fund is well positioned in the longer term, with its high quality portfolio of assets and which have been further enhanced with the acquisition of the Arabella Portfolio. The Westin in particular has a robust business model, which should provide strong earnings support, while the AHS provides the Fund with a future opportunity to realise profits from the sale of the land that is categorised as “properties held for trading”.

For the 2012 financial year, management are focused on driving operational performance to enhance unitholder returns, restructuring the Fund’s debt facilities to mitigate both concentration and expiry risk and reviewing the Fund’s capital structure with a view to reducing the B-linked unit volatility.

#### 10. Directorate

Mrs Linda de Beer was appointed as an independent non-executive director to the board of Hospitality with effect from 17 August 2011. Mrs de Beer will also fill the vacancy on the Fund’s audit committee from the effective date.

#### 11. Payments of debenture interest

Unitholders will receive debenture interest payment number 11 for the six-month period ended 30 June 2011, of 61.79 cents per A-linked unit and 20.45 cents per B-linked unit.

2011	
Last day to trade cum interest	Friday, 2 September
Linked units will trade ex-interest	Monday, 5 September
Record date	Friday, 9 September
Payment date	Monday, 12 September

Unitholders may not dematerialise or rematerialise their linked units between Monday, 5 September 2011 and Friday, 9 September 2011, both days inclusive.

By order of the Board

**F M Berkeley** (Chairman) **G A Nelson** (Chief Executive Officer)

17 August 2011

### BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed annual financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS), including the presentation and disclosure requirements of IAS 34, the interpretations issued respectively by the International Accounting Standards Board, the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the AC 500 series issued by the South African Institute of Chartered Accountants and the requirements of the Companies Act of South Africa, 2008. KPMG Inc, the independent auditor, has reviewed the financial statements and expressed an unqualified review opinion, which is available for inspection at Hospitality’s registered office.

The accounting policies used are consistent with those used in the annual financial statements for the year ended 30 June 2010, except for the early adoption of the amendment to IAS 12 – Deferred Tax.

### Statement of comprehensive income

for the year ended 30 June 2011

	Reviewed 2011 R'000	Audited 2010 R'000
<b>Revenue</b>	<b>277 358</b>	<b>265 550</b>
Rental income – contractual	277 043	265 902
– straight-line accrual	315	(352)
<b>Expenditure</b>	<b>(21 051)</b>	<b>(29 577)</b>
Operating expenses	(21 051)	(29 577)
<b>Operating profit</b>	<b>256 307</b>	<b>235 973</b>
<b>Transaction costs on business combinations</b>	<b>(16 958)</b>	<b>(2 268)</b>
<b>Net finance cost</b>	<b>(112 857)</b>	<b>(108 593)</b>
Finance income	13 366	2 023
Finance costs	(126 223)	(110 616)
<b>Profit before debenture interest, goodwill, fair value adjustments and taxation</b>	<b>126 492</b>	<b>125 112</b>
Recoupment of debenture interest	17 534	1 194
Debenture interest	(160 669)	(128 926)
<b>Loss before fair value adjustments, goodwill and taxation</b>	<b>(16 643)</b>	<b>(2 620)</b>
<b>Gain on bargain purchase</b>	<b>141 437</b>	<b>587</b>
<b>Fair value adjustments</b>	<b>(393 649)</b>	<b>(309 855)</b>
Investment properties, before straight-lining adjustment	(415 651)	(253 618)
Straight-line rental income accrual	(315)	352
Total fair value of investment properties	(415 966)	(253 266)
Contingent consideration	32 842	(2 287)
Interest rate swaps	(10 525)	(54 302)
<b>Loss before taxation</b>	<b>(268 855)</b>	<b>(311 888)</b>
<b>Equity accounted loss from associate after tax</b>	<b>(60)</b>	<b>–</b>
<b>Taxation (2010 restated)</b>	<b>58 195</b>	<b>35 424</b>
<b>Total loss and comprehensive loss for the year</b>	<b>(210 720)</b>	<b>(276 464)</b>
<b>Reconciliation between earnings, headline earnings and distributable earnings</b>		
<b>Loss for the period</b>	<b>(210 720)</b>	<b>(276 464)</b>
Adjustments: Debenture interest	160 669	127 732
<b>Loss (linked units)</b>	<b>(50 051)</b>	<b>(148 732)</b>
Adjustments:		
Gain on bargain purchase	(141 437)	(587)
Equity accounted loss from associate after tax	60	–
Fair value – investment properties revaluation, net of tax	357 456	218 194
Fair value – straight-line rental income	315	(352)
<b>Headline earnings (linked units)</b>	<b>166 343</b>	<b>68 523</b>
Fair value – interest rate swaps	10 525	54 302
Transaction costs on business combinations	16 958	2 268
Contingent consideration	(32 842)	2 287
Straight-line rental income	(315)	352
<b>Distributable earnings</b>	<b>160 669</b>	<b>127 732</b>
<b>Number of units/shares</b>		
<b>A-linked unit</b>	<b>88 761 391</b>	<b>63 112 101</b>
<b>B-linked unit</b>	<b>88 761 391</b>	<b>63 112 101</b>
<b>Weighted average number of units/shares</b>		
<b>A-linked unit</b>	<b>80 462 949</b>	<b>62 474 525</b>
<b>B-linked unit</b>	<b>80 462 949</b>	<b>62 474 525</b>
<b>Distribution per linked unit (cents)</b>		
<b>A-linked unit</b>	<b>122.11</b>	<b>116.30</b>
– Interim	60.32	57.46
– Final	61.79	58.84
<b>B-linked unit</b>	<b>58.90</b>	<b>87.98</b>
– Interim	38.45	36.30
– Final	20.45	51.68
	181.01	204.28
<b>(Loss)/Earnings per linked unit (cents)</b>		
<b>A-linked unit</b>	<b>(31.10)</b>	<b>(119.03)</b>
<b>B-linked unit</b>	<b>(31.10)</b>	<b>(119.03)</b>
	(62.20)	(238.07)
<b>Headline earnings per linked unit (cents)</b>		
<b>A-linked unit</b>	<b>103.37</b>	<b>54.84</b>
<b>B-linked unit</b>	<b>103.37</b>	<b>54.84</b>
	206.73	109.68
<b>(Loss)/Earnings and diluted earnings per ordinary share (cents)</b>	<b>(130.94)</b>	<b>(221.26)</b>

### Statement of financial position

as at 30 June 2011

	Reviewed 2011 R'000	Audited 2010* R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>4 109 300</b>	<b>3 471 279</b>
Investment properties	3 940 558	3 303 013
Straight-line rental income accrual	15 172	14 857
Investment properties and related accrual	3 955 730	3 317 870
Furniture and equipment	748	587
Goodwill	152 822	152 822
<b>Current assets</b>	<b>57 903</b>	<b>37 284</b>
Trade and other receivables	37 413	26 574
Properties held for trading	16 940	–
Cash and cash equivalents	3 550	10 710
<b>Total assets</b>	<b>4 167 203</b>	<b>3 508 563</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>537 155</b>	<b>664 208</b>
Share capital and share premium	342 862	259 195
Retained earnings	123 718	(701)
Fair value reserve	70 575	405 714
<b>Non-current liabilities</b>	<b>2 152 503</b>	<b>2 625 847</b>
Debentures	1 668 714	1 186 507
Interest-bearing liabilities	411 380	1 308 371
Derivative liability	21 542	11 014
Contingent consideration	–	32 842
Deferred taxation	50 867	87 113
<b>Current liabilities</b>	<b>1 477 545</b>	<b>218 508</b>
Trade and other payables	63 257	38 356
Bank overdraft	12 333	–
Interest-bearing liabilities	1 328 962	–
Vendors on property acquisition	–	110 400
Debenture interest payable	72 993	69 752
<b>Total equity and liabilities</b>	<b>4 167 203</b>	<b>3 508 563</b>
<b>A. Net asset value per linked unit (Rand)</b>		
<b>A-linked unit</b>	<b>12.43</b>	<b>14.66</b>
<b>B-linked unit</b>	<b>12.43</b>	<b>14.66</b>
<b>B. Net asset value per linked unit (excluding deferred taxation) (Rand)</b>		
<b>A-linked unit</b>	<b>12.71</b>	<b>15.35</b>
<b>B-linked unit</b>	<b>12.71</b>	<b>15.35</b>

\*Restated due to a change in accounting policy.

### Statement of changes in equity

for the year ended 30 June 2011

	Share capital R'000	Share premium R'000	Retained earnings R'000	Fair value reserve R'000	Total R'000
<b>Balance at 30 June 2009</b>	12	246 951	980	561 322	<b>809 265</b>
Impact of change in accounting policy	–	–	–	119 175	<b>119 175</b>
<b>Restated balance at 30 June 2009</b>	12	246 951	980	680 497	<b>928 440</b>
Loss/Total comprehensive loss for the year	–	–	(276 464)	–	<b>(276 464)</b>
Transactions with owners, recorded directly in equity	1	12 231	274 783	(274 783)	<b>12 232</b>
Issue of shares	1	12 411	–	–	<b>12 412</b>
Share issue expenses, net of tax	–	(180)	–	–	<b>(180)</b>
Transfer from fair value reserve – investment properties (net of deferred tax)	–	–	*218 194	(218 194)	<b>–</b>
Transfer to fair value reserve – contingent consideration	–	–	*2 287	(2 287)	<b>–</b>
Transfer to fair value reserve – interest rate swaps	–	–	*54 302	(54 302)	<b>–</b>
<b>Restated balance at 30 June 2010</b>	13	259 182	(701)	405 714	<b>664 208</b>
Loss/Total comprehensive loss for the year	–	–	(210 720)	–	<b>(210 720)</b>
Transactions with owners, recorded directly in equity	5	83 662	335 139	(335 139)	<b>83 667</b>
Issue of shares	5	95 551	–	–	<b>95 556</b>
Share issue expenses, net of tax	–	(11 889)	–	–	<b>(11 889)</b>
Transfer from fair value reserve – investment properties (net of deferred tax)	–	–	357 456	(357 456)	<b>–</b>
Transfer to fair value reserve – contingent consideration	–	–	(32 842)	32 842	<b>–</b>
Transfer to fair value reserve – interest rate swaps	–	–	10 525	(10 525)	<b>–</b>
<b>Balance at 30 June 2011</b>	<b>18</b>	<b>342 844</b>	<b>123 718</b>	<b>70 575</b>	<b>537 155</b>

\*Restated due to a change in accounting policy.

### Statement of cash flows

for the year ended 30 June 2011

	Reviewed 2011 R'000	Audited 2010 R'000
<b>Cash flows from operating activities</b>		
Cash generated from		