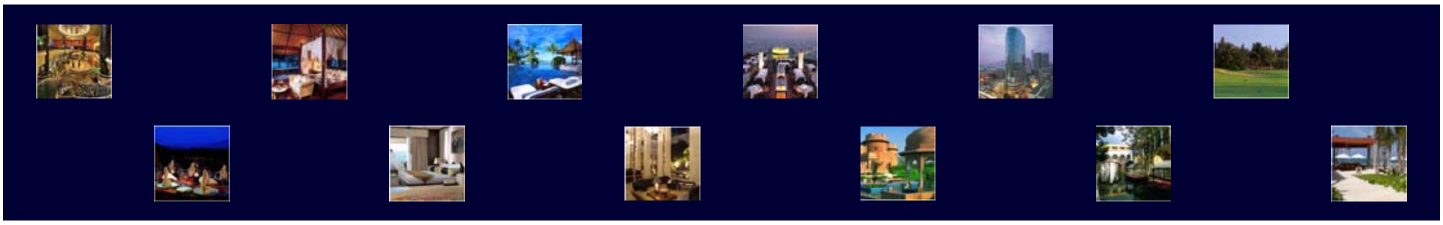

Horwath HTL

Annual Hotel Industry Survey of Operations - South Africa

Calendar Year 2006

Horwath HTL Annual Hotel Industry Survey of Operations - South Africa

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Horwath HTL Annual Hotel Industry Survey of Operations - South Africa

Overview of Survey Results

We, at Horwath Tourism & Leisure Consulting are pleased to present the 2007 Horwath HTL Annual Hotel Industry Survey of Operations - South Africa, by far the most extensive and detailed hotel operation survey conducted in South Africa.

We would like to express our utmost appreciation to all who contributed to our survey. Expectedly, there was some apprehension amongst the hotels, however, we certainly hope that this year's publication will convince and encourage more and more hotels to participate in the years to come. For the purposes of this edition, 80 hotels participated in the survey, representing a total of 10 171 guest rooms.

Survey Highlights

General

Overall, 5-star properties achieved an average room rate of R1 099 and an occupancy of 70,1%; 4-star properties achieved an average room rate of R521 and an occupancy of 67,2%, 3-star properties achieved an average room rate of R518 and an occupancy of 70,8% while 2-star properties achieved an average room rate of R380 and an occupancy of 74,2%.

It is perhaps interesting to note the distinct differences in average room rate achieved in each of the geographic locations, although occupancies did not differ substantially across provincial borders. In Gauteng, properties achieved an average room rate of R499 and an occupancy of 74,2%, in the Western Cape they achieved an average room rate of R652 and an occupancy of 65,9%, in KwaZulu Natal they achieved an average room rate of R568 and an occupancy of 70,7%, in Mpumalanga they achieved an average room rate of R442 and an occupancy of 63,1%, and in the Eastern Cape they achieved an average room rate of R466 and an occupancy of 71,2%.

Hotels with less than 75 rooms achieved an average room rate of R596 and an occupancy of 65,2%, mid-scale hotels (75 and 150 rooms) achieved an average room rate of R581 and an occupancy of 65,7%, hotels with between 150 and 250 rooms achieved an average room rate of R571 and an occupancy of 73,8%, whilst hotels with more than 250 rooms achieved an average room rate of R788 and an occupancy of 71,2%.

As expected, rooms revenue was the biggest driver of overall hotel profitability – rooms revenue accounted for 63,2% of all revenue and just 22,1% of overall expenses. In contrast, F&B revenue accounted for 29,8% of all revenue but 36,8% of overall expenses.

Source Markets

In terms of source markets, hotels with higher star rating attracted significantly more foreign customers. At hotels with less than 75 rooms, domestic customer demand was lower than for larger hotels.

Undistributed Costs and Management Fees

Administrative and general costs were between 11,8% and 7,1% of Gross Revenue, with a median percentage of 8,7%. In terms of sales and marketing expenses, higher end and small properties spent more than other properties on sales and marketing. Property operations and maintenance expenses, as a percentage of Gross Revenue, was highest at hotels with more than 150 rooms and 4-star properties. Overall, base management fees were between 2,6% and 6,1% of Gross Revenue, with a median percentage of 2,9% whilst incentive fee were between 0,6% and 5,3% of Gross Revenue with a median percentage of 1,6%.

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Advance Reservations

Overall, advance bookings were most popular through travel agents at 24,2% and direct enquiries at 21,7% while tour operators and own reservation systems maintained an important source of business at 16,0% and 15,9% respectively. Global distribution systems (GDS) and hotel chain websites accounted for 6,5% and 6,3% of advance bookings respectively. Internet bookings through hotel's own website at 2,2% as well as bookings through other Internet sites at 1,4% were still fairly low.

Labour Statistics

There is a clear correlation between the number of staff per available room and the star rating of hotels. 2-Star hotels had a staff ratio of only 0,24; 3-star hotels had a staff ratio of 0,42; 4-star hotels had a staff ratio of 0,91 while 5-star hotels had a staff ratio of 0,84. Hotels with less than 75 rooms had the highest staff ratio per available room of 0,87; mid-scale hotels (between 75 and 150 rooms) had a staff ratio of 0,80; hotels with between 150 and 250 rooms had a staff ratio of 0,57; and hotels with more than 250 rooms had a staff ratio of 0,58.

Industry Outlook

Overall, some 70,7% of respondents forecast an increase in occupancy in 2007 and some 65,9% of respondents forecast an increase in occupancy in 2008. Confidence in an increase in occupancy in 2007 was highest amongst hotel managers of 2-star hotels (100%) followed by hotel managers of 5-star hotels (83,3%). In terms of hotel size, hotel mangers of hotels with less than 75 rooms were the most confident of all hotel managers in an increase in occupancy in 2007 followed by hotel managers of hotels with more than 250 rooms. In terms of geographic location, the Eastern Cape industry is the most confident in an increase in occupancy in 2007 (80,0%) followed by the Western Cape (76,5%).

In terms of Average Room Rate, overall some 84,1% of respondents forecast an increase in ARR in 2007 and 2008. Again confidence was highest amongst hotel managers of 2-star properties (100%) followed by 5- and 4-star properties. Hotel managers of hotels with between 150 and 250 rooms are most confident of an increase in ARR in 2007 and 2008 (100%). In terms of geographic location, the Gauteng industry is the most confident in an increase in ARR in 2007 and 2008 (94,7%) followed by the Western Cape (88,2% in respect of 2007 and 85,3% in respect of 2008).

Survey Methodology

All financial results are presented as arithmetic means. With the use of means, all values presented are simple averages of individual property data. We believe this calculation to be the most representative of segment performance since it reflects the results of an average hotel in each category. The use of means also enables us to present segment financial tables where individual line items did not add to the totals shown.

In the production of the Horwath HTL Annual Hotel Industry Survey of Operations – South Africa, as with any report that aggregates diverse financial statements, many decisions were made regarding data treatment and analysis. In order for this report to be of optimal benefit to the reader, it is necessary to describe some of our major decisions and general methodology.

First, data presentation in this report is based on the Uniform System of Accounts for Hotels. In our data collection, we stress the importance of structuring the data to be consistent with the Uniform System. To the best of our ability we made every property in the sample consistent with that format. Those questionnaires that were not in a consistent format and could not be modified to that format or those that did not provide sufficient detail were not used in this analysis.

Second, when all the data was in the appropriate format, inputted and ready for analysis, we ran error and reasonableness checks to ensure data accuracy and identify outliers in the data. Typically, these checks resulted in the identification and subsequent modification of suspect data.

All financial data is presented according to the most common measures of industry performance: ratios to revenue (RTR) and amounts per available room (PAR). When analyzing segment results, the reader should be aware that each of these measures were computed independently of each other. In effect, results presented as RTR reflect the performance for a typical hotel in the segment being analyzed (i.e. each hotel getting equal weighting), while results presented as PAR's reveal segment results weighted by property size and revenue generated. Therefore, balancing the reported ratios across two different measures of performance for each line item is difficult. Depending on the needs of the user, one of these measures may be more appropriate than the other. This is true whether the user's needs are for a particular revenue or expense category or the total financial statement of a particular type of hotel operation.

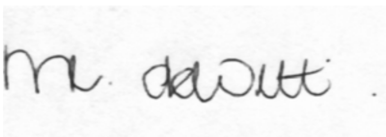
Values presented are averages of individual property data. We feel that this calculation to be most reflective of industry segments. Since not every property provided data for every line item, weighting of the data, or any alternative calculation, becomes extremely difficult as the base would be different for each of the individual line items.

As with all studies of this kind, a random sample of data collection methodology was used to enlist participants for this report. Therefore, while we believe the results to be the most accurate available, they are still subject to non-sampling errors. In addition, although the information in this publication has been obtained from sources which we believe to be reliable and accurate, we do not guarantee its accuracy since it is submitted by third parties.

This publication is not intended to represent the rendering of legal, accounting, or professional services. The amounts and ratios presented should not be considered a standard for any type of property, geographic location, hotel size, or star rating, but only as guidelines for comparison with the operation results of a specific property. They are not an attempt by the publisher of this report to set or conform prices or operating standards for the industry. It should be noted that all amounts throughout are presented in South African Rand.

In closing, our most sincere thanks go to all the hotels that participated in this study and we look forward to the industry's continued support and participation in the years to come. We welcome any comments and suggestions that will make this important study more helpful and relevant for the South African hotel sector.

Sincerely,



Michelè de Witt
Director