



# CAPITAL

CAPITAL PROPERTY FUND

## CONDENSED AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

("Capital" or "the Fund") Share code CPL ISIN ZAE000001731

### DIRECTORS' COMMENTARY

#### 1 DISTRIBUTABLE EARNINGS

Total distributions for the year ended 31 December 2011 increased by 9,13% to 65,63 cents per unit. Capital's distribution of 34,27 cents per unit for the final six months represents an increase of 7,84% over the distribution of 31,78 cents per unit for the comparable period in the previous year.

#### 2 REVIEW

A number of significant transactions were completed in the 2011 financial year transforming Capital as a listed real estate fund. The most significant event was the acquisition by Capital of all the Pangbourne Properties Limited ("Pangbourne") linked units in issue that were not already owned by it. This resulted in Capital increasing its market capitalisation substantially making it the third largest listed property fund on the JSE Limited.

Boardwalk Shopping Centre in Richards Bay was sold for R1 028 million to Resilient Property Income Fund Limited ("Resilient") at a yield of 8%. The purchase price was settled 50% in cash and 50% in Resilient linked units issued at R31,71. A portfolio of seven predominantly rural retail properties was sold to Fortress Income Fund Limited ("Fortress") for R704 million at a yield of 9,78%, settled through Fortress A and B units issued at R10,63 and R3,17 respectively. These sales are in line with management's strategy of divesting from retail and focusing on prime office and industrial properties in Johannesburg, Pretoria, KwaZulu-Natal and the Western Cape.

Demand for offices is weak with vacancies increasing and renewal rentals under pressure. As a result of the rental differentials between A- and B-grade offices decreasing, tenants have taken the opportunity to move to A-grade space, negatively impacting on B-grade office vacancies.

Demand for industrial properties, particularly warehousing for distribution, is firm with a notable increase for bigger boxes in well located areas, such as Linbro Park, Longmeadow and Raceway Industrial Park. Demand for manufacturing space continues to decline in line with the downward trend in this sector. Capital's strategy for the past five years has been to reduce exposure to the manufacturing sector and these tenants currently occupy 20% of Capital's industrial space. The intention is to reduce this further through the development pipeline of new distribution facilities.

Increases in rates and taxes, utility charges and additional levies imposed by local authorities, at rates well ahead of inflation, continue unabated. This has continued to negatively impact distribution growth as it is not always possible to recover increases from tenants. While the merger with Pangbourne makes direct comparisons with prior periods difficult, the current direct property cost to income ratio of 33,2% is an area of concern.

Despite a noticeable increase in company liquidations and the difficult economic environment, arrears have remained under control at 2,6% of the R1 909 million gross billings, whilst R13,4 million of bad debts were written off.

Vacancies of 6,3% comprise 4,8% industrial, 13,4% offices and 4,7% retail based on gross lettable area. Industrial vacancies have declined, retail vacancies have increased marginally and office vacancies have continued to deteriorate.

#### 3 DEVELOPMENTS

Capital's strategy includes the development of A-grade warehousing space in the nodes favoured by corporate tenants. These are being built at lower costs per square metre and with higher specifications than properties available for sale in the market. Pursuant to this strategy, Capital is seeking to acquire additional vacant industrial land. Large office developments will be considered on a pre-let basis. These developments will allow Capital to increase its gearing and continue to rejuvenate the portfolio.

The following developments have been approved:

Property name	% owned	GLA	Estimated yield	Estimated commencement date	Estimated completion date
N1 Business Park	20%	9 150m <sup>2</sup>	10%	Commenced	Aug 2012
Montague Business Park	25%	13 200m <sup>2</sup>	9%	Mar 2012	Oct 2012
Grand Central	100%	253 covered parking bays	10%	Mar 2012	Oct 2012
Raceway Industrial Park	100%	12 000m <sup>2</sup>	9,5%	Commenced	Jun 2012

The following developments are currently being evaluated:

Property name	% owned	GLA	Estimated yield	Estimated commencement date
Tradeport City Deep	100%	52 000m <sup>2</sup> (additional buildings in park)	9,0%	May 2012
Raceway Industrial Park	100%	55 000m <sup>2</sup> (additional buildings in park)	9,0%	Jun 2012

#### 4 DISPOSALS

Capital sold the following office and industrial properties during 2011:

Property name	Proceeds (R'000)	Valuation at 31 Dec 2010 (R'000)	Yield (%)	Effective date
Porcelain Street Olifantsfontein	53 800	57 000	N/A	6 Jun 11
Jurgens Street Isando	33 500	31 000	8,0%	5 Sep 11
Montague Business Park (land) (25%)	22 022	15 061	N/A	18 Feb 11
Redlands Office Park	20 000	17 900	8,5%	5 Oct 11
20 Malcol Road Westmead	12 356	12 100	5,9%	11 Jul 11
Moores Rowland House Durban	11 000	14 300	N/A	4 Oct 11

Capital sold the following retail properties during 2011:

Property name	Proceeds (R'000)	Valuation at 31 Dec 2010 (R'000)	Yield (%)	Effective date
Boardwalk Shopping Centre	1 028 000	908 000	8,0%	1 Dec 11
Park Central Shopping Centre	154 000	138 000	10,2%	1 Dec 11
N1 Value Centre	154 000	140 400	9,1%	24 Jun 11
Mutsindo Mall & Capricorn Plaza	145 000	123 000	8,4%	1 Dec 11
Morone Shopping Centre Burgersfort	120 500	95 000	9,6%	1 Dec 11
Crossroads	90 000	82 700	11,6%	1 Dec 11
West Street Durban	83 500	67 800	8,5%	1 Dec 11
Venda Plaza	81 000	80 200	10,8%	1 Dec 11
KwaMashu Shopping Centre (75%)	77 625	66 675	12,7%	25 Oct 11
Shoprite Port Shepstone	30 000	29 600	10,8%	1 Dec 11

#### 5 EQUITY INVESTMENTS

Capital owns 3 900 000 New Europe Property Investments plc shares, 16 200 000 Resilient linked units, 50 600 000 Fortress A linked units and 96 000 000 Fortress B linked units.

#### 6 CAPITAL STRUCTURE AND SECURITISATION

Capital received an A3.aa long term and P-2.aa short term investment grade rating from international ratings agency, Moody's. This enabled Capital to raise unsecured finance in the capital markets through a Domestic Medium Term Note programme ("DMTN").

R700 million of unsecured debt was raised in the capital markets, R200 million in three month commercial paper and R500 million in three year bonds, replacing secured debt from banks. The two Commercial Mortgage Backed Securitisation programmes, totalling R1 091 million, will be repaid in July and October 2012. Capital has facilities in place to cover these commitments.

Capital's gearing has decreased from 24,8% at 30 June 2011 to 22,2% at 31 December 2011. The board is comfortable with gearing of up to 30%.

#### 7 OUTLOOK

The board forecasts growth in distributions of between 4% and 8% per Capital unit for the 2012 financial year. This forecast has not been reviewed or reported on by Capital's auditors.

The growth is based on the assumption that a stable macro-economic environment will prevail, no major corporate failures will occur and that tenants will be able to absorb the recovery of rising utility costs. Budgeted rental income was based on contractual escalations and market related renewals.

By order of the board

Barry Stuhler Managing director Rual Bormanman Financial director

1 February 2012 Johannesburg

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited Dec 2011 R'000	Audited Dec 2010 R'000
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>17 949 605</b>	<b>7 122 844</b>
Investment property	15 728 251	5 923 042
Straight-lining of rental revenue adjustment	125 413	88 667
Investment property under development	468 241	166 702
Investments	689 700	944 433
Investment in associate company	938 000	-
<b>Current assets</b>	<b>262 810</b>	<b>15 281</b>
Trade and other receivables	198 411	15 099
Cash and cash equivalents	64 399	182
<b>Total assets</b>	<b>18 212 415</b>	<b>7 138 125</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital of Fund</b>	<b>12 520 641</b>	<b>5 298 062</b>
Trust capital	9 273 620	2 645 963
Non-distributable reserves	3 247 021	2 652 099
Retained earnings	-	-
<b>Total liabilities</b>	<b>5 691 774</b>	<b>1 840 063</b>
<b>Non-current liabilities</b>	<b>2 502 069</b>	<b>752 814</b>
Interest-bearing borrowings	1 949 538	693 781
Deferred tax	552 531	59 033
<b>Current liabilities</b>	<b>3 189 705</b>	<b>1 087 249</b>
Trade and other payables	543 955	194 682
Unitholders for distribution	550 714	228 046
Income tax payable	3 894	-
Interest-bearing borrowings	2 091 142	632 329
Bank overdraft	-	32 192
<b>Total equity and liabilities</b>	<b>18 212 415</b>	<b>7 138 125</b>

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited for the year ended Dec 2011 R'000	Audited for the year ended Dec 2010 R'000
<b>Net rental and related revenue</b>	<b>1 312 883</b>	<b>518 240</b>
Recoveries and contractual rental revenue	1 909 449	704 415
Straight-lining of rental revenue adjustment	36 746	16 348
Rental revenue	1 946 195	720 763
Property operating expenses	(633 312)	(202 523)
<b>Distributable income from investments</b>	<b>16 093</b>	<b>70 926</b>
<b>Fair value gain on investment property and investments</b>	<b>796 358</b>	<b>564 468</b>
Fair value gain on investment property	661 560	467 247
Adjustment resulting from straight-lining of rental revenue	(36 746)	(16 348)
Fair value gain on investments	171 544	113 569
<b>Administrative expenses</b>	<b>(74 864)</b>	<b>(35 545)</b>
<b>Impairment of goodwill</b>	<b>(98 042)</b>	<b>-</b>
<b>Impairment of subsidiary loans</b>	<b>-</b>	<b>(319)</b>
<b>Distributable income from associate</b>	<b>5 970</b>	<b>-</b>
<b>Profit before net finance costs</b>	<b>1 958 398</b>	<b>1 117 770</b>
<b>Net finance costs</b>	<b>(263 768)</b>	<b>(130 183)</b>
Finance income	178 879	2 484
Interest on units issued cum distribution	175 900	2 484
Interest received	2 979	2 484
Finance costs	(442 647)	(132 667)
Interest paid on borrowings	(376 795)	(122 678)
Capitalised interest	29 245	14 472
Fair value adjustment on interest rate derivatives	(95 097)	(24 461)
<b>Profit before income tax expense</b>	<b>1 694 630</b>	<b>987 587</b>
Income tax expense	(45 043)	(11 143)
<b>Profit for the year attributable to equity holders</b>	<b>1 649 587</b>	<b>976 444</b>
<b>Total comprehensive income for the year</b>	<b>1 649 587</b>	<b>976 444</b>
Basic earnings per unit (cents)*	102,65	136,07

\*The Fund has no dilutionary instruments in issue.

### RECONCILIATION OF PROFIT FOR THE YEAR TO HEADLINE EARNINGS AND DISTRIBUTABLE INCOME

	Audited for the year ended Dec 2011 R'000	Audited for the year ended Dec 2010 R'000
<b>Profit for the year attributable to equity holders</b>	<b>1 649 587</b>	<b>976 444</b>
Adjusted for:	(480 632)	(433 962)
- Fair value gain on investment property	(661 560)	(467 247)
- Adjustment resulting from straight-lining of rental revenue	36 746	16 348
- Impairment of goodwill	98 042	-
- Impairment of subsidiary loans	-	319
- Income tax effect	46 140	16 618
<b>Headline earnings</b>	<b>1 168 955</b>	<b>542 482</b>
<b>Reconciliation of profit for the year to amount available for distribution</b>		
Profit for the year attributable to equity holders	1 649 587	976 444
Straight-lining of rental revenue adjustment	(36 746)	(16 348)
Fair value gain on investment property	(661 560)	(467 247)
Adjustment resulting from straight-lining of rental revenue	36 746	16 348
Fair value gain on investments	(171 544)	(113 569)
Impairment of goodwill	98 042	-
Impairment of subsidiary loans	-	319
Fair value adjustment on interest rate derivatives	95 097	24 461
Income tax expense	45 043	11 143
<b>Distributable income</b>	<b>1 054 665</b>	<b>431 551</b>
Interim	(503 951)	(203 505)
Final	(550 714)	(228 046)
<b>Income not distributed</b>	<b>-</b>	<b>-</b>
Headline earnings per unit (cents)	72,74	75,60

Basic earnings per unit is 102,65 cents (2010: 136,07 cents). The calculation of the basic earnings per unit is based on a weighted average number of units in issue during the year of 1 606 986 279 (2010: 717 578 059) and earnings of R1 649,587 million (2010: R976,444 million).

Headline earnings per unit is 72,74 cents (2010: 75,60 cents). The calculation of headline earnings per unit is based on a weighted average number of units in issue during the year of 1 606 986 279 (2010: 717 578 059) and headline earnings of R1 168,955 million (2010: R542,482 million).

### ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited Dec 2011 R'000	Audited Dec 2010 R'000
Cash (outflow)/inflow from operating activities	(88 167)	31 933
Cash inflow/(outflow) from investing activities	825 450	(361 265)
Cash (outflow)/inflow from financing activities	(640 874)	272 145
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>96 409</b>	<b>(57 187)</b>
Cash and cash equivalents at the beginning of the year	32 010	25 177
<b>Cash and cash equivalents at the end of the year</b>	<b>64 399</b>	<b>(32 010)</b>
Cash and cash equivalents consist of:		
Cash on call iro securitisation	59 621	-
Current accounts	4 778	182
Bank overdraft	-	(32 192)
<b>Total</b>	<b>64 399</b>	<b>(32 010)</b>

### CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDERS' INTEREST

	Trust distributable R'000	Non-current reserves R'000	Retained earnings R'000	Total R'000
<b>Balance at 31 December 2009</b>	<b>2 645 963</b>	<b>2 107 206</b>	<b>-</b>	<b>4 753 169</b>
Total comprehensive income for the year	-	-	976 444	976 444
Transfer to non-distributable reserves	-	544 893	(544 893)	-
Distribution	-	-	(431 551)	(431 551)
<b>Balance at 31 December 2010</b>	<b>2 645 963</b>	<b>2 652 099</b>	<b>1 649 587</b>	<b>1 649 587</b>
Total comprehensive income for the year	-	-	976 444	976 444
Issue of units	-	-	889 408 220 on 4 April 2011	889 408 220
Transfer to non-distributable reserves	-	594 922	(594 922)	-
Distribution	-	-	(1 054 665)	(1 054 665)
<b>Balance at 31 December 2011</b>	<b>9 273 620</b>	<b>3 247 021</b>	<b>1 649 587</b>	<b>12 520 641</b>

### PREPARATION, ACCOUNTING POLICIES AND AUDIT OPINION

The condensed audited consolidated financial statements have been prepared in accordance with the measurement and recognition requirements of IFRS, the AC500 standards as issued by the Accounting Practices Board, the information contained in IAS 34: Interim Financial Reporting, the JSE Listings Requirements, the requirements of the South African Companies Act and the Collective Investment Schemes Control Act (Act 45 of 2002). This report was compiled under the supervision of Rual Bormanman, the financial director.

The accounting policies adopted are consistent with those applied in the prior periods.

The directors are not aware of any matters or circumstances arising subsequent to 31 December 2011 that require any additional disclosure or adjustment to the financial statements.

Deloitte & Touche have issued their unmodified opinion on the group financial statements for the year ended 31 December 2011. These condensed financial statements have been derived from the group financial statements and are, in all material respects, consistent with the group financial statements. A copy of their audit report is available for inspection at the Fund's registered office.

### SUMMARY OF FINANCIAL PERFORMANCE

	Dec 2011	Jun 2011	Dec 2010	Jun 2010
Distribution per unit (cents)	34,27	31,36	31,78	28,36
Units in issue	1 606 986 279	1 606 986 279	717 578 059	717 578 059
Net asset value	R7,79	R7,39	R7,38	R6,65
Gearing ratio*	22,2%	24,8%	18,6%	19,4%

\*The gearing ratio is calculated by dividing interest-bearing borrowings by total assets.

### HEDGED BORROWINGS

Expiry	Nominal amount R'million	Interest rate	% of borrowings
<b>Interest rate swaps</b>			
Oct 2012	10	8,22%	0,25%
Feb 2013	100	8,18%	2,47%
Aug 2013	100	8,05%	2,47%
Sep 2013	400	9,85%	9,90%
May 2014	50	8,67%	1,27%
May 2014	100	8,60%	2,47%
Aug 2014	100	7,15%	2,47%
Mar 2015	100	7,69%	2,47%
Apr 2015	300	8,26%	7,42%
Jul 2015	100	7,50%	2,47%
Sep 2015	200	9,61%	4,95%
Dec 2015	100	7,85%	2,47%
Aug 2016	200	8,51%	4,95%
Sep 2016	400	8,42%	9,90%
Dec 2016	200	7,50%	4,95%
Mar 2017	300	8,60%	7,42%
Jun 2017	100	7,69%	2,47%
Nov 2017	200	7,91%	4,95%
Dec 2017	200	7,66%	4,95%
Jan 2018			