



CAPITAL PROPERTY FUND

ANNUAL  
REPORT

**2010**



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## DEFINITIONS

### **“Absa” or “Absa Bank”**

Absa Bank Limited, who act as trustees for Capital.

### **“Capital” or “Fund” or “Trust”**

Capital Property Fund, a portfolio in the Capital Property Trust Scheme, a collective investment scheme in property registered with the Financial Services Board.

### **“Companies Act”**

The Companies Act of South Africa.

### **“Collective Investment Schemes Control Act”**

The Collective Investment Schemes Control Act, 45 of 2002, the current act regulating property and other unit trusts.

### **“Finlay”**

Finlay-Stevens Retail (Proprietary) Limited, who act as property managers on a portion of Capital’s property portfolio.

### **“Group”**

Capital Property Fund, its subsidiaries and associates (if applicable).

### **“JHI”**

Topeka Trading 4 (Proprietary) Limited, trading as JHI, who act as property managers on the majority of Capital’s property portfolio.

### **“Nepi”**

New Europe Property Investments plc, a property fund listed on the main board of the JSE and AIM, the alternative market of the London Stock Exchange.

### **“Pangbourne”**

Pangbourne Properties Limited, a property loan stock company.

### **“Prominent”**

Promprops cc trading as Prominent Properties, who act as property managers on a portion of Capital’s property portfolio.

### **“Property Unit Trust” or “PUT”**

A property unit trust regulated by the Collective Investment Schemes Control Act.

### **“Property Fund Managers” or “PFM”**

Property Fund Managers Limited, the management company appointed to manage Capital in terms of the Collective Investment Schemes Control Act and the trust deed dated 17 December 2003.

### **“Resilient”**

Resilient Property Income Fund Limited, a property loan stock company.

## BOARD OF DIRECTORS

### WILLY ROSS (65)

**INDEPENDENT NON-EXECUTIVE  
CHAIRMAN  
CTA, CA(SA)**

Willy commenced his merchant banking career with the Nedbank Group in 1974 in corporate finance. He later became involved in project and structured finance and private equity. At the time of the delisting of Nedcor Investment Bank, he was an executive director responsible for infrastructure, project and structured finance, private equity and risk and legal. Willy retired after 30 years' service with the Nedbank Group and he now serves on the boards of a number of listed and unlisted companies.



### ANDREW TEIXEIRA (43)

**MANAGING DIRECTOR  
BSC QS)**

Andrew started his career in his own construction company. He then joined JHI Real Estate in 1993 in their property management division. He was appointed as the director responsible for property management nationally in 2002. Andrew served as a director of Diversified Property Fund Limited.



### RUAL BORNMAN (33)

**FINANCIAL DIRECTOR  
CASA)**

Rual started his career with KPMG in financial services auditing. In 2003 he joined Stanlib where he was involved in management reporting, accounting and system integration. He then joined a software development firm implementing reconciliation systems at Stanlib, before being employed by Resilient in 2005.



### ROWLAND CHUTE (57)

**INDEPENDENT NON-EXECUTIVE  
DIRECTOR  
BCOM, MBL AND A POSTGRADUATE  
DIPLOMA IN LAW**

Rowland spent over 30 years with Old Mutual in the asset management business as an executive director, both in South Africa and a number of other African countries. He was an executive director of Old Mutual Properties (Proprietary) Limited and Old Mutual Asset Managers (Proprietary) Limited.



### JORGE DA COSTA (55)

**INDEPENDENT NON-EXECUTIVE  
DIRECTOR  
(PORTUGUESE CITIZEN)**

Jorge has been in the property industry for the past 29 years and is a founding director of Improvon Property Group, developers of prime industrial properties across South Africa.

**DES DE BEER (50)**  
**EXECUTIVE DIRECTOR**  
**BPROC, MAP**

Des spent most of his career with the Nedbank Group, initially in property finance and later in private equity. Des is managing director of Resilient and a director of Pangbourne, Fortress Income Fund Limited and Nepi.



**ANDRIES DE LANGE (37)**  
**EXECUTIVE DIRECTOR**  
**CA(SA) CFA**

After completing his articles, Andries joined the Industrial Development Corporation of South Africa Limited and then Nedbank Limited where he gained experience in debt finance, debt and equity restructurings and private equity. He joined the Resilient Group in 2004 and is a director of Resilient.



**PROTAS PHILI (36)**  
**INDEPENDENT NON-EXECUTIVE**  
**DIRECTOR**  
**BCOM, CTA, MCOM (TAXATION), CA(SA)**

Protas was previously a director in the corporate finance and transactions division of the Department of Public Enterprises, non-executive director of Rand Merchant Bank and WesBank and national taxation committee member of the South African Institute of Chartered Accountants. Protas is currently a director of April 27 Corporate Finance (Proprietary) Limited, Veterans Capital (Proprietary) Limited and also serves on the audit and risk committees of Aventura Holiday Resorts Limited, Mogale City Municipality, Safety and Security Seta and Wholesale and Retail Seta.



**BANUS VAN DER WALT (60)**  
**INDEPENDENT NON-EXECUTIVE**  
**DIRECTOR**  
**B ECON, ADVANCED EXECUTIVE**  
**PROGRAMME**

Banus is a retired property practitioner. He was previously the managing director of Sanlam Properties and Gensec Property Services for 16 years. He has 40 years' property experience with the Sanlam Group and has travelled extensively to study the property industry, both locally and internationally. Banus is a past president of the South African Property Owners Association (SAPOA) and has been a non-executive director of Martprop, Acucap, SA Retail and iFour. He was also involved in the listing of Primegro, Acucap, Resilient, iFour, SA Retail, MICC and Vukile. Banus is currently a non-executive director of Vukile Property Fund. He is also a non-executive director of Sanlam Properties and a member of the Property Committee of Sanlam. Banus is also a non-executive director of three non-listed companies.



**TSHIAMO VILAKAZI (46)**  
**INDEPENDENT NON-EXECUTIVE**  
**DIRECTOR**  
**BA (SW), LLB, CERTIFICATE IN MINING**  
**PROSPECTING (SA)**

Tshiamo is a practicing attorney, conveyancer and notary public. She is a legal consultant to Gauteng Provincial Government and Department of Housing. She is also a member of the Housing Advisory Panel of North West Provincial Government, Department of Housing and has been in practice for 17 years.



**TRACEY VISSER (50)**  
**EXECUTIVE DIRECTOR**

Tracey has been involved in the property industry for over 20 years and has held various positions at Stocks & Stocks and V&A Waterfront. Tracey was an asset manager with Old Mutual Properties (Proprietary) Limited prior to joining PFM.

# BOARD OF DIRECTORS

(CONTINUED)

## ATTENDANCE AT BOARD AND SUB-COMMITTEE MEETINGS

<b>Attendance at board meetings</b>	<b>Scheduled</b>	<b>Attended</b>
Willy Ross (chairman)	6	6
Andrew Teixeira	6	6
Rual Bornman	6	5
Rowland Chute	6	6
Jorge da Costa	6	6
Des de Beer	6	6
Andries de Lange	6	5
Protas Phili	6	6
Barry Stuhler*	2	2
Tshiamo Vilakazi	6	6
Tracey Visser	6	6
Banus van der Walt**	4	4

\*Barry Stuhler retired from the board with effect from 24 June 2010.

\*\*Banus van der Walt was appointed to the board with effect from 24 June 2010.

<b>Attendance at audit and risk committee meetings</b>	<b>Scheduled</b>	<b>Attended</b>
Protas Phili (chairman)	5	5
Rowland Chute	5	5
Tshiamo Vilakazi	5	5

<b>Attendance at investment committee meetings</b>	<b>Scheduled</b>	<b>Attended</b>
Rowland Chute (chairman)	3	3
Andrew Teixeira	3	3
Jorge da Costa	3	3
Des de Beer	3	3

## ANALYSIS OF UNITHOLDERS AND UNIT TRADING

### UNITHOLDER SPREAD AT 31 DECEMBER 2010 AS DEFINED IN TERMS OF THE LISTINGS REQUIREMENTS OF THE JSE LIMITED

	Number of unitholders	Number of units held	Percentage of issued units
Public	3 935	551 924 775	76,9%
Non-public	1	136 900 000	19,1%
Directors and employees	43	28 753 284	4,0%
	<b>3 979</b>	<b>717 578 059</b>	<b>100,0%</b>

Size of holding	Number of unitholders	Number of units held	Percentage of issued units
up to 2 500 units	1 621	927 583	0,1%
2 501 to 10 000 units	1 105	6 462 175	1,0%
10 001 to 100 000 units	943	29 659 746	4,1%
100 001 to 1 000 000 units	217	73 196 285	10,2%
1 000 001 to 3 500 000 units	57	112 182 073	15,6%
More than 3 500 000 units	36	495 150 197	69,0%
	<b>3 979</b>	<b>717 578 059</b>	<b>100,0%</b>

Registered unitholders owning 5% or more of issued units	Number of units held	Percentage of issued units
Resilient	136 900 000	19,1%
STANLIB Property Income Fund	35 785 886	5,0%
	<b>172 685 886</b>	<b>24,1%</b>

Control of more than 5% of issued units	Number of units controlled	Percentage of issued units
Resilient	136 900 000	19,1%
STANLIB	126 127 382	17,6%
Investec	120 956 840	16,9%
Old Mutual	40 680 042	5,7%
	<b>424 664 264</b>	<b>59,3%</b>

# ANALYSIS OF UNITHOLDERS AND UNIT TRADING

(CONTINUED)

## BENEFICIAL UNITHOLDING OF DIRECTORS AND OFFICERS

<b>At 31 December 2010</b>	<b>Direct holding</b>	<b>Indirect holding</b>	<b>Total units held</b>	<b>Percentage of units issued</b>
Rual Bornman	100 000	–	100 000	–
Stefano Contardo*	8 600	–	8 600	–
Jorge da Costa	–	422 765	422 765	0,1%
Des de Beer	–	6 488 909	6 488 909	0,9%
Andries de Lange	2 661 363	452 350	3 113 713	0,4%
Protas Phili	–	261 510	261 510	–
Andrew Teixeira	–	2 016 000	2 016 000	0,3%
Tracey Visser	75 000	–	75 000	–
	<b>2 844 963</b>	<b>9 641 534</b>	<b>12 486 497</b>	<b>1,7%</b>

\*Alternate to Jorge da Costa.

<b>At 31 December 2009</b>	<b>Direct holding</b>	<b>Indirect holding</b>	<b>Total units held</b>	<b>Percentage of units issued</b>
Rual Bornman	100 000	–	100 000	–
Jorge da Costa	–	422 765	422 765	0,1%
Des de Beer	–	5 606 898	5 606 898	0,8%
Andries de Lange	2 661 363	452 350	3 113 713	0,4%
Barry Stuhler	1 624 927	8 071 499	9 696 426	1,4%
Andrew Teixeira	–	1 156 000	1 156 000	0,2%
	<b>4 386 290</b>	<b>15 709 512</b>	<b>20 095 802</b>	<b>2,9%</b>

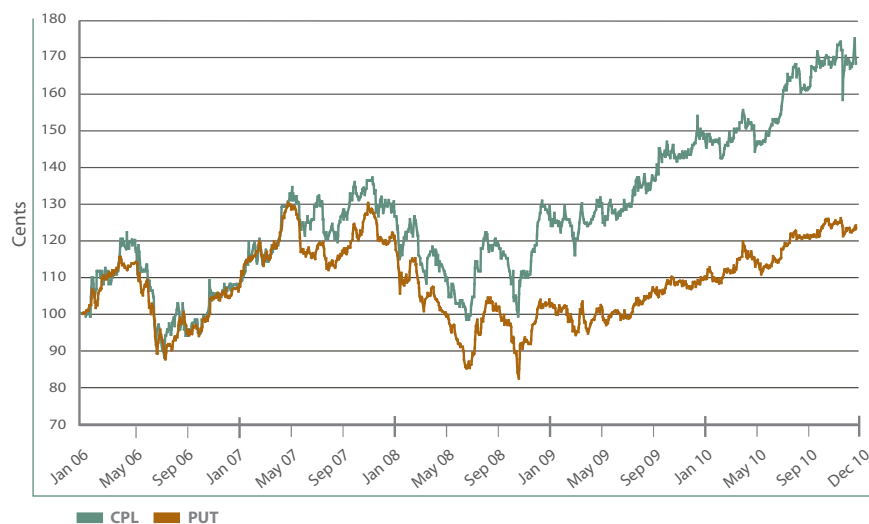
The unitholding of directors and officers has not changed between the end of the financial year and the date of this financial report.

### CLOSING PRICE



Closing price	Cents
2005	432
2006	479
2007	604
2008	595
2009	710
2010	821

### CAPITAL VS PUT INDEX (INDEXED TO 100 ON 1 JANUARY 2006)



Average daily value traded	R'million
2005	3,2
2006	2,7
2007	5,3
2008	4,4
2009	8,6
2010	6,2

Average daily volume traded	('000)
2005	866,1
2006	596,7
2007	931,3
2008	847,6
2009	1 379,2
2010	830,1

# FUND STRUCTURE

## OWNERSHIP



**Capital Property Fund**  
717 578 059 units listed on the JSE Limited.

## UNITHOLDERS

Effective direct ownership in the property portfolio.

## REGULATORY BODIES



**The JSE Limited**  
Ensures compliance with JSE regulations. Provides market for trading of units.



**Registrar of Collective Investment Schemes**  
Ensures compliance with the Collective Investment Schemes Control Act.



**Trustee: Absa Bank Limited**  
Protects unitholder interests. Custodian of assets and securities. Ensures adherence to investment policy and trust deed provisions.



chartered accountants & business advisers

**Auditors: PKF (Jhb) Inc.**  
Ensures compliance with legislation and trust deed. Ensures fair presentation of financial results.

## MANAGEMENT



**Property Fund Managers Limited**  
Manages the Fund. Reports to unitholders.



Shareholder of the management company  
**Resilient Property Income Fund Limited**



# MANAGEMENT COMPANY'S REPORT TO UNITHOLDERS

## DISTRIBUTABLE EARNINGS

The distribution of 31,78 cents per unit for the final six months represents an increase of 10,1% over the distribution of 28,86 cents per unit for the comparable period of the previous financial year.

Total distributions for the year ended 31 December 2010 increased by 10,2% to 60,14 cents per unit.

## COMMENTARY ON RESULTS

Capital's quality property portfolio has continued to perform well despite the weaker economy. Most of Capital's properties are located in high demand nodes in Cape Town, Durban, Johannesburg and Pretoria which, together with the strong corporate tenant profile, has placed it at an advantage relative to the market. The Fund's focus remains on the flexibility, general utilisation and functionality of its properties, whilst avoiding tenant specific or specialised properties.

In a difficult operating environment these combined strategies ensured a resilient portfolio with high levels of tenant retention, above market growth in rentals and lower vacancies, relative to the market.

The arrears book has decreased marginally and remains firmly under control. Vacancies increased from 4,4% at 31 December 2009 to 5,2% at 31 December 2010 comprising 6,2% industrial, 3,5% commercial and 3,0% retail based on gross lettable area.

Gross income of the property portfolio (excluding sales and acquisitions in 2009 and 2010) increased by 11,4%, whilst expenses increased by 21,5% resulting in growth in net property income of 8,1%. The sharp increase in expenses is largely due to substantial increases in utilities and rates and taxes. The growth in distribution was positively impacted on by yield enhancing acquisitions and the benefit of gearing in the Fund.

## PROPERTY PORTFOLIO

Capital's strategy remains the investment in and acquisition of A-grade industrial and commercial properties and the disposal of the retail assets over time. This will result in a focused industrial and commercial fund, concentrating on the four major commercial nodes and this is in accordance with international best practice, where specialised funds are favoured by investors.

### Acquisitions

In line with its strategy, Capital acquired the following industrial and commercial properties during the financial year:

Property name	Purchase price (R'000)	Initial yield	Effective date
146 Serenade Road, Rustivia	30 519	9,40%	1 Feb 10
9 Ayshire Avenue, Longmeadow	41 169	9,25%	1 Feb 10
5 - 7 Ayshire Avenue, Longmeadow	21 538	9,25%	1 Feb 10
3 - 4 Drakensberg Drive, Longmeadow	107 666	8,75%	1 Feb 10
10 Drakensberg Drive, Longmeadow	18 196	9,25%	1 Feb 10
87 - 91 Goodwood Road*	33 600	9,00%	13 Oct 10
31 Jeffels Road, Prospecton	94 000	9,75%	22 Dec 10
Westway Office Park**	41 905	10,50%	1 Nov 10
14 Fitzmaurice Avenue, Epping 2**	25 238	10,50%	1 Nov 10
5 Bertie Avenue, Epping 2**	15 000	11,00%	1 Nov 10
<b>Total</b>	<b>428 831</b>		

\*Includes vacant land

\*\*Not yet transferred

### Disposals

Capital disposed of the following non-core property:

Property name	Valuation at 31 Dec 2009 (R'000)	Sales price (R'000)	Exit yield	Effective date
A portion of 4th Street, Wynberg (Portion 1 of erf 473)	5 696	9 000	8,50%	30 Jun 10

## LISTED EQUITIES

Capital has retained its holding of 43 169 000 units in Pangbourne Properties Limited ("Pangbourne") which equates to 9,8% of Pangbourne's market capitalisation. The holding in New Europe Property Investments plc ("Nepi") was reduced from 4 362 837 shares to 3 450 000 shares. The intention remains to sell the holding over time.

## PANGBOURNE MERGER

Capital has made an offer to acquire all of the Pangbourne linked units in issue that are not already held by it pursuant to a scheme of arrangement. The offer is primarily on the basis of an all-unit consideration which would entail Pangbourne unitholders swapping their linked units in Pangbourne for units in Capital at a swap ratio of 2,38 Capital units for each Pangbourne unit.

Following implementation of the scheme, Capital will be one of the largest property funds in South Africa, by market capitalisation, differentiated by its industrial and commercial focus. The enlarged Capital may attract interest from a wider group of investors enhancing the liquidity of its units. Increased market capitalisation and enhanced liquidity may result in Capital's inclusion in a number of stock exchange and property indices and, over time, may result in a re-rating of Capital. The potential re-rating and lower yield would position Capital to make further revenue enhancing acquisitions and its increased size, together with its moderate debt and secure cash flows, should enhance Capital's access to capital markets.

As part of, and subject to the implementation of the scheme, it has been agreed that, with effect from 1 January 2011, the asset management fee charged by PFM in respect of Capital will be reduced from 0,5% to 0,4% of the market capitalisation and borrowings of Capital.

Unitholders are referred to the circulars dated and to be posted on or about 3 February 2011, for full details of the transaction.

## BORROWINGS

Capital, through Monyetla which was acquired in 2008, was exposed to Pangbourne's PROPS 2 securitisation vehicle. On 4 January 2011 this vehicle was restructured with Monyetla exiting the structure utilising a new R360 million facility provided by Standard Bank.

Capital's expiring banking facilities, totalling R550 million with Standard Bank, were renewed for a further two years after year end. In addition, Capital accepted a new facility of R350 million from RMB which was utilised to finance acquisitions.

## SUMMARY OF FINANCIAL PERFORMANCE

	31 Dec 2010	30 Jun 2010	31 Dec 2009	30 Jun 2009
Distribution per unit (cents)	<b>31,78</b>	28,36	28,86	25,72
Units in issue	<b>717 578 059</b>	717 578 059	717 578 059	618 949 027
Net asset value per unit	<b>R7,38</b>	R6,57	R6,62	R6,18
Gearing ratio*	<b>18,6%</b>	19,4%	17,1%	23,4%

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

# MANAGEMENT COMPANY'S REPORT TO UNITHOLDERS

(CONTINUED)

## HEDGED BORROWINGS

Swap maturity	Nominal amount R'000	Swap rate
Feb 2011	100 000	7,85%
May 2011	100 000	7,68%
Dec 2011	50 000	8,29%
Feb 2013	100 000	8,18%
Dec 2013	100 000	8,02%
May 2014	50 000	8,67%
May 2014	100 000	8,60%
Aug 2014	100 000	7,15%
Jul 2015	100 000	7,50%
Dec 2015	100 000	7,85%
Dec 2016	200 000	7,50%
Dec 2017	200 000	7,66%
<b>Total hedged borrowings</b>	<b>1 300 000</b>	<b>7,82%</b>
Variable rate borrowings	26 110	
<b>Total borrowings</b>	<b>1 326 110</b>	

## PROSPECTS

The board expects vacancy levels to increase during the next six months, followed by an improvement as the economy grows and excess capacity is taken up. Rentals remain under pressure as a result of the higher vacancy levels in the property market.

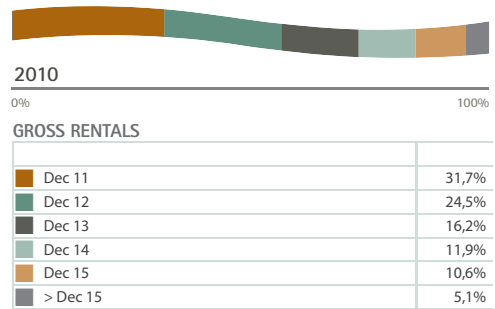
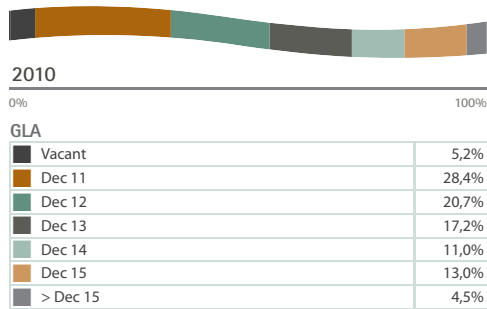
Capital's growth prospects remain positive and the board anticipates growth in distributions of between 8% and 10% for the 2011 financial year, excluding the impact of the proposed merger. The growth is based on the assumptions that a stable macro-economic environment will prevail, no major corporate 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. This forecast has not been reviewed or reported on by Capital's auditors.



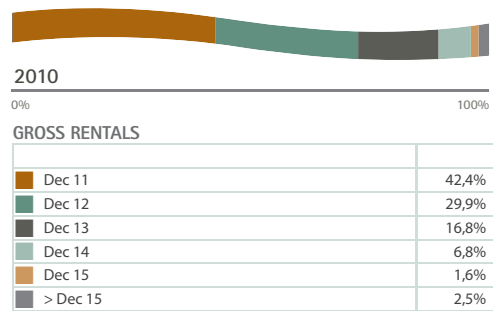
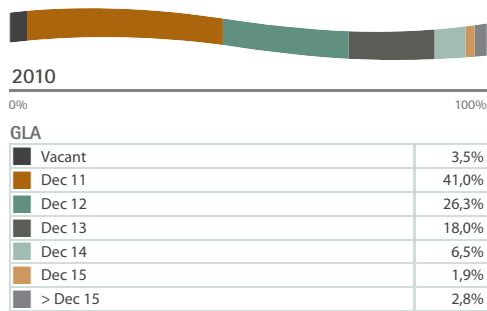


# PORTFOLIO STATISTICS

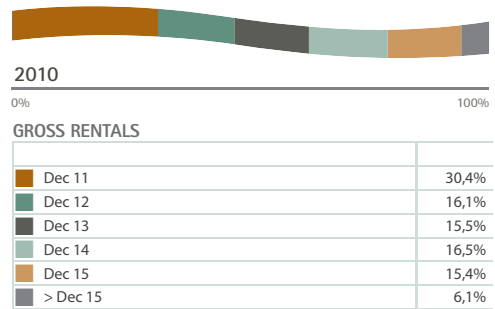
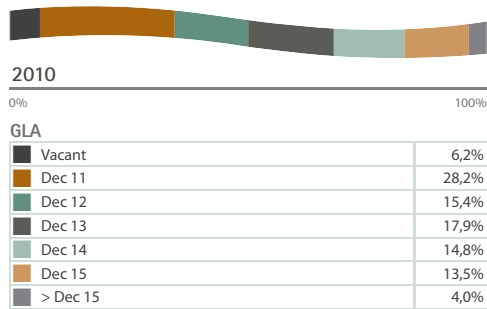
## LEASE EXPIRY



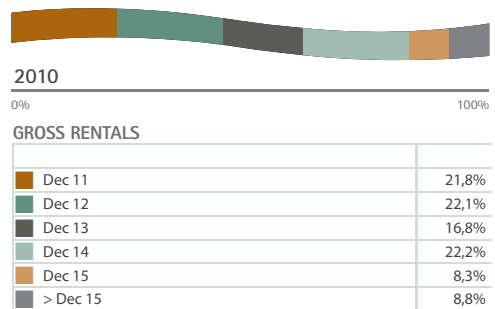
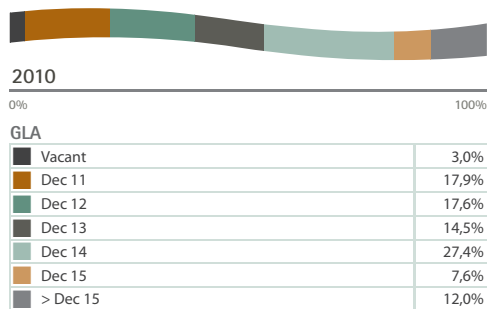
## COMMERCIAL – LEASE EXPIRY



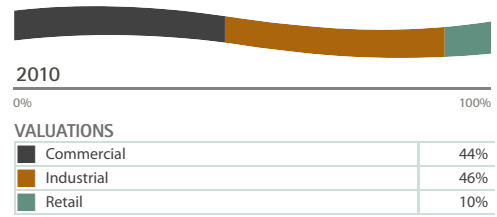
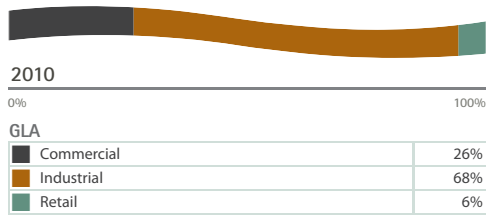
## INDUSTRIAL – LEASE EXPIRY



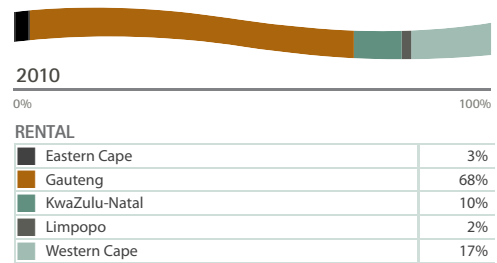
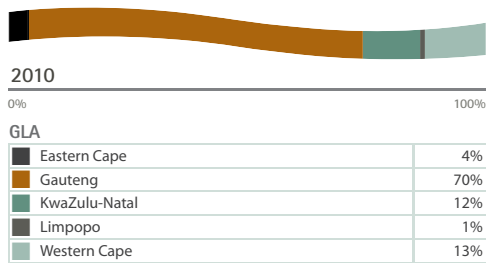
## RETAIL – LEASE EXPIRY



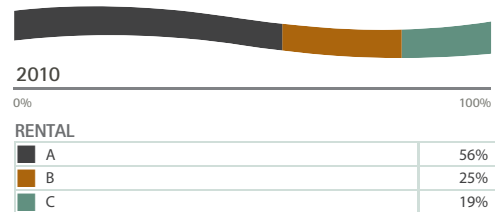
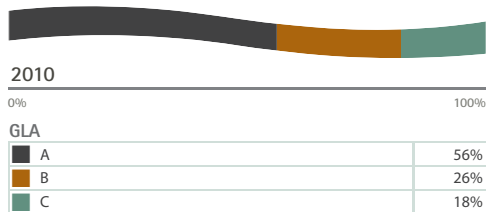
### SECTORAL SPLIT



### GEOGRAPHICAL SPLIT



### TENANT RATING



A Large national tenants, large listed tenants, government and major franchisees.  
 B National tenants, listed tenants, franchisees, medium to large professional firms.  
 C Other, comprising mainly smaller tenants.

### WEIGHTED AVERAGE RENTAL



The average annualised property yield is 9,5%.

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## DIRECTORS' RESPONSIBILITY STATEMENT for the year ended 31 December 2010

The directors of PFM are responsible for the preparation and fair presentation of the group annual financial statements and separate parent annual financial statements of Capital Property Fund ("the Fund") and annual financial statements of Property Fund Managers Limited ("the Company"), comprising the statements of financial position as at 31 December 2010, the statements of comprehensive income, the statements of changes in unitholders' interest and statements of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and Collective Investment Schemes Control Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management, as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the group, Fund and Company's ability to continue as a going concern and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and separate parent annual financial statements of the Fund and the Company are fairly presented in accordance with the applicable financial reporting framework.

*Approval of group annual financial statements and annual financial statements of the Fund and the Company*

The group annual financial statements and the annual financial statements of the Fund and the Company were approved by the board of directors on 2 February 2011 and signed on its behalf by:



**Andrew Teixeira**  
Managing director

2 February 2011



**Rual Bornman**  
Financial director

## DECLARATION BY COMPANY SECRETARY for the year ended 31 December 2010

In terms of the Companies Act of South Africa, I certify that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.



**Rual Bornman**  
Company secretary

2 February 2011

# INDEPENDENT AUDITOR'S REPORT

for the year ended 31 December 2010

## TO THE UNITHOLDERS OF CAPITAL PROPERTY FUND

We have audited the annual financial statements of Capital Property Fund ("the Fund"), which comprise the consolidated and separate statements of financial position at 31 December 2010, and the consolidated and separate statements of comprehensive income, statements of changes in unitholders' interest and statements of cash flow for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the management company's report as set out on pages 12 to 14, 19 and 22 to 49.

## DIRECTORS OF THE MANAGEMENT COMPANY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Collective Investments Schemes Control Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Capital Property Fund at 31 December 2010, its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the Collective Investments Schemes Control Act of South Africa.

PKF (Jhb) Inc.

## PKF (Jhb) Inc

Registered Auditors

Chartered Accountants (SA)

Registration number 1994/001166/211

Per P Badrick

Johannesburg

2 February 2011

# REPORT OF THE TRUSTEE



Commercial Property Finance

11 Diagonal Street  
Johannesburg 2001  
PO Box 42010 Fordsburg 2033

Docex 342 Johannesburg  
Tel 011 556 6000  
Swift Address: ABSA ZA JJ  
<http://www.absa.co.za>

Kommersiële Eiendomsfinansiering

Diagonalstraat 11  
Johannesburg 2001  
Posbus 42010 Fordsburg 2033

Docex 342 Johannesburg  
Tel 011 556 6000  
Swift-Adres: ABSA ZA JJ  
<http://www.absa.co.za>

## Report of the Trustee

For the year ended 31 December 2010

In terms of Section 70(1)(f) of the Collective Investment Schemes Control Act of 2002

### To the unitholders of Capital Property Fund

During the period as set out above during which the Collective Investment Schemes Control Act of 2002 has been in effect the Trust has been administered in accordance with

- i) the limitations imposed on the investment and borrowing powers of the Manager by the Act; and
- ii) the provisions of the Act and the deed.

### ABSA Bank Limited

Trustee

Johannesburg

12 January 2011

ABSA Bank Limited/Beperk, Reg No 1986/004794/06

Member of the  
Lid van die **BARCLAYS** Group  
Groep

Directors/Direkteure: DC Brink (Chairperson/Voorsitter) \* M Ramos (Chief Executive/Uitvoerende Hoof) DC Arnold BP Connellan YZ Cuba BCMM de Vitry d'Avaucourt (French/Frans) SA Fakie G Griffin MW Hlahla MJ Husain AP Jenkins (British/Brits) R Le Blanc (British/Brits) EC Mondlane Jr (Mozambican/Mosambiëks) TM Mokgosi-Mwantembe TS Munday SG Pretorius \*JH Schindehütte \*LL von Zeuner BJ Willemsse  
\*Executive Directors/Uitvoerende Direkteure Secretary/Sekretaris: S Martin (07/2009)

Authorised Financial Services Provider/Gemagtigde Finansiële diensteverskaffer – Registered Credit Provider/Geregistreerde Kredietverskaffer, Reg-no NCRCP7

**STATEMENTS OF FINANCIAL POSITION**  
for the year ended 31 December 2010

		AUDITED GROUP	RESTATE GROUP	RESTATE GROUP	AUDITED FUND	AUDITED FUND
		2010	2009	2008	2010	2009
Note		R'000	R'000	R'000	R'000	R'000
<b>ASSETS</b>						
<b>Non-current assets</b>						
		<b>7 122 844</b>	6 090 175	4 850 819	<b>5 639 877</b>	4 925 638
		<b>5 923 042</b>	5 033 139	4 459 286	<b>4 411 117</b>	3 649 089
		<b>88 667</b>	72 319	58 107	<b>70 091</b>	48 968
		<b>166 702</b>	126 091	41 703	<b>166 702</b>	126 091
		-	-	118 923	-	-
		<b>944 433</b>	858 626	172 800	<b>944 433</b>	858 626
		-	-	-	<b>47 534</b>	242 864
		<b>15 281</b>	60 286	107 249	<b>507 494</b>	582 029
		-	-	50 692	-	-
		-	-	610	-	-
		<b>15 099</b>	25 497	54 941	<b>10 190</b>	11 959
		-	-	-	<b>497 133</b>	570 035
		<b>182</b>	34 789	1 006	<b>171</b>	35
		<b>7 138 125</b>	6 150 461	4 958 068	<b>6 147 371</b>	5 507 667
<b>EQUITY AND LIABILITIES</b>						
<b>Capital of Fund</b>						
		<b>5 298 062</b>	4 753 169	3 800 285	<b>4 763 548</b>	4 388 493
		<b>2 645 963</b>	2 645 963	1 981 763	<b>2 645 963</b>	2 645 963
		<b>2 652 099</b>	2 107 206	1 818 522	<b>2 117 585</b>	1 742 530
		-	-	-	-	-
		<b>1 840 063</b>	1 397 292	1 157 783	<b>1 383 823</b>	1 119 174
		<b>752 814</b>	1 101 855	771 155	<b>321 052</b>	679 615
		<b>693 781</b>	1 053 965	731 615	<b>321 052</b>	679 615
		<b>59 033</b>	47 890	39 540	-	-
		<b>1 087 249</b>	295 437	386 628	<b>1 062 771</b>	439 559
		<b>194 682</b>	78 732	171 371	<b>170 483</b>	56 724
		-	-	-	-	166 130
		<b>632 329</b>	-	53 531	<b>632 329</b>	-
		<b>228 046</b>	207 093	154 003	<b>228 046</b>	207 093
		<b>32 192</b>	9 612	7 723	<b>31 913</b>	9 612
		<b>7 138 125</b>	6 150 461	4 958 068	<b>6 147 371</b>	5 507 667

# STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

		AUDITED GROUP	RESTATED GROUP	AUDITED FUND	AUDITED FUND
	Note	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>Net rental and related revenue</b>		<b>518 240</b>	447 516	<b>488 498</b>	400 359
Recoveries and contractual rental revenue		<b>704 415</b>	600 059	<b>517 798</b>	389 053
Dividends from fixed property companies		–	–	<b>94 625</b>	103 925
Straight-lining of rental revenue adjustment		<b>16 348</b>	13 602	<b>21 123</b>	10 342
Rental revenue		<b>720 763</b>	613 661	<b>633 546</b>	503 320
Property operating expenses		<b>(202 523)</b>	(166 145)	<b>(145 048)</b>	(102 961)
<b>Distributable income from investments</b>		<b>70 926</b>	49 815	<b>70 926</b>	49 815
<b>Fair value gain on investment property and investments</b>		<b>564 468</b>	293 198	<b>442 518</b>	205 602
Fair value gain on investment property		<b>467 247</b>	144 433	<b>350 072</b>	57 221
Fair value adjustment resulting from straight-lining of rental revenue		<b>(16 348)</b>	(13 602)	<b>(21 123)</b>	(10 342)
Fair value gain on investments		<b>113 569</b>	162 367	<b>113 569</b>	158 723
<b>Administrative expenses</b>		<b>(35 545)</b>	(28 665)	<b>(35 632)</b>	(28 999)
<b>Impairment of subsidiary loans</b>		<b>(319)</b>	–	<b>(63 886)</b>	–
<b>Share of post acquisition reserves from associate</b>		–	8 493	–	8 064
Distributable income from associate		–	8 064	–	8 064
Profit from associate		–	429	–	–
<b>Profit before net finance costs</b>		<b>1 117 770</b>	770 357	<b>902 424</b>	634 841
<b>Net finance costs</b>		<b>(130 183)</b>	(106 966)	<b>(95 818)</b>	(55 083)
Finance income		<b>2 484</b>	8 617	<b>407</b>	6 758
Interest on units issued <i>cum</i> distribution		–	6 100	–	6 100
Interest received		<b>2 484</b>	2 517	<b>407</b>	658
Finance costs		<b>(132 667)</b>	(115 583)	<b>(96 225)</b>	(61 841)
Interest on borrowings		<b>(122 678)</b>	(112 637)	<b>(85 999)</b>	(66 547)
Interest capitalised		<b>14 472</b>	7 179	<b>14 472</b>	7 179
Fair value adjustment on interest rate derivatives		<b>(24 461)</b>	(10 125)	<b>(24 698)</b>	(2 473)
<b>Profit before income tax</b>	12	<b>987 587</b>	663 391	<b>806 606</b>	579 758
Income tax expense	13	<b>(11 143)</b>	(8 420)	–	–
<b>Profit for the year attributable to equity holders</b>		<b>976 444</b>	654 971	<b>806 606</b>	579 758
<b>Total comprehensive income for the year</b>		<b>976 444</b>	654 971	<b>806 606</b>	579 758
Basic earnings per unit (cents)*	14	<b>136,07</b>	98,01		

\*The Fund has no dilutionary instruments in issue.

**STATEMENTS OF CHANGES IN UNITHOLDERS' INTEREST**  
for the year ended 31 December 2010

<b>GROUP</b>		<b>Trust</b>	<b>Non-</b>	<b>Retained</b>	<b>Total</b>
<b>RESTATED</b>	<b>Note</b>	<b>capital</b>	<b>distributable</b>	<b>earnings</b>	<b>R'000</b>
		<b>R'000</b>	<b>reserves</b>	<b>R'000</b>	<b>R'000</b>
<b>Balance previously reported at</b>					
<b>31 December 2008</b>		1 981 763	1 790 975	–	3 772 738
Change in accounting policy for deferred tax	10		27 547		27 547
<b>Restated balance at 31 December 2008</b>		1 981 763	1 818 522	–	3 800 285
Total comprehensive income for the year				654 971	654 971
Issue of units		664 200			664 200
Transfer to non-distributable reserves			261 434	(261 434)	–
Change in accounting policy for deferred tax	10		27 250	(27 250)	–
Distribution				(366 287)	(366 287)
<b>Restated balance at 31 December 2009</b>		2 645 963	2 107 206	–	4 753 169
Total comprehensive income for the year				<b>976 444</b>	<b>976 444</b>
Transfer to non-distributable reserves			<b>544 893</b>	<b>(544 893)</b>	–
Distribution				<b>(431 551)</b>	<b>(431 551)</b>
<b>Balance at 31 December 2010</b>		<b>2 645 963</b>	<b>2 652 099</b>	–	<b>5 298 062</b>

<b>FUND</b>		<b>Trust</b>	<b>Non-</b>	<b>Retained</b>	<b>Total</b>
		<b>capital</b>	<b>distributable</b>	<b>earnings</b>	<b>R'000</b>
		<b>R'000</b>	<b>reserves</b>	<b>R'000</b>	<b>R'000</b>
<b>Balance at 31 December 2008</b>		1 981 763	1 529 059	–	3 510 822
Total comprehensive income for the year				579 758	579 758
Issue of units		664 200			664 200
Transfer to non-distributable reserves			213 471	(213 471)	–
Distribution				(366 287)	(366 287)
<b>Balance at 31 December 2009</b>		2 645 963	1 742 530	–	4 388 493
Total comprehensive income for the year				<b>806 606</b>	<b>806 606</b>
Transfer to non-distributable reserves			<b>375 055</b>	<b>(375 055)</b>	–
Distribution				<b>(431 551)</b>	<b>(431 551)</b>
<b>Balance at 31 December 2010</b>		<b>2 645 963</b>	<b>2 117 585</b>	–	<b>4 763 548</b>

**STATEMENTS OF CASH FLOW**  
for the year ended 31 December 2010

	Note	GROUP		FUND	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>Operating activities</b>					
Profit for the year		976 444	654 971	806 606	579 758
Adjusted for:					
Income tax		11 143	8 420	–	–
Straight-lining of rental revenue adjustment		(16 348)	(13 602)	(21 123)	(10 342)
Fair value gain on investment property		(467 247)	(144 433)	(350 072)	(57 221)
Fair value adjustment resulting from straight-lining of rental revenue		16 348	13 602	21 123	10 342
Fair value gain on investments		(113 569)	(162 367)	(113 569)	(158 723)
Impairment of subsidiary loans		319	–	63 886	–
Profit from associate		–	(429)	–	–
Interest received		(2 484)	(2 517)	(407)	(658)
Interest on borrowings		122 678	105 458	85 999	59 368
Interest capitalised		(14 472)	–	(14 472)	–
Fair value adjustment on interest rate derivatives		24 461	10 125	24 698	2 473
Amortisation of tenant installation		2 871	–	805	–
Amortisation of letting commission		3 156	–	2 318	–
<b>Cash inflow from operating activities</b>		<b>543 300</b>	<b>469 228</b>	<b>505 792</b>	<b>424 997</b>
<b>Working capital changes</b>					
Decrease/(increase) in trade and other receivables		16 745	14 233	8 198	(5 054)
Increase/(decrease) in trade and other payables		2 680	(92 639)	489	(4 699)
Cash inflow/(outflow) from working capital		19 425	(78 406)	8 687	(9 753)
<b>Cash generated from operations</b>		<b>562 725</b>	<b>390 822</b>	<b>514 479</b>	<b>415 244</b>
Interest received		2 484	2 517	407	658
Interest on borrowings		(122 678)	(105 458)	(85 999)	(59 368)
Income tax paid	15.1	–	(70)	–	–
Distributions paid	15.2	(410 598)	(313 197)	(410 598)	(313 197)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>31 933</b>	<b>(25 386)</b>	<b>18 289</b>	<b>43 337</b>
<b>Investing activities</b>					
Additions to investment property		(346 688)	(808 610)	(346 688)	(808 610)
Proceeds on disposal of investment property		9 000	312 744	9 000	92 075
Additions, developments and improvements to investment property		(51 339)	(129 310)	(42 510)	(123 029)
Acquisition of investments		(17 040)	(443 139)	(17 040)	(443 139)
Proceeds on disposal of investments		44 802	192 576	44 802	83 178
Repayment of loans advanced to subsidiaries		–	–	38 216	162 073
<b>Cash outflow from investing activities</b>		<b>(361 265)</b>	<b>(875 739)</b>	<b>(314 220)</b>	<b>(1 037 452)</b>
<b>Financing activities</b>					
Proceeds from the issue of new units	15.3	–	664 200	–	664 200
Increase in interest-bearing borrowings		272 145	268 819	273 766	327 918
<b>Cash inflow from financing activities</b>		<b>272 145</b>	<b>933 019</b>	<b>273 766</b>	<b>992 118</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(57 187)</b>	<b>31 894</b>	<b>(22 165)</b>	<b>(1 997)</b>
Cash and cash equivalents at the beginning of the year		25 177	(6 717)	(9 577)	(7 580)
<b>Cash and cash equivalents at the end of the year</b>	6	<b>(32 010)</b>	<b>25 177</b>	<b>(31 742)</b>	<b>(9 577)</b>

**SEGMENTAL ANALYSIS**  
for the year ended 31 December 2010

<b>Segmental analysis – 2010</b>	<b>Retail</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Investments and other</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Recoveries and contractual income	73 505	311 250	319 660	–	704 415
Straight-lining of rental revenue adjustment	571	7 465	8 312	–	16 348
External segmental revenue	<b>74 076</b>	<b>318 715</b>	<b>327 972</b>	<b>–</b>	<b>720 763</b>
<b>Segment result</b>					
Operating profit	52 407	233 744	232 089	(35 545)	482 695
Finance income	–	–	–	2 484	2 484
Finance costs	–	–	–	(132 667)	(132 667)
Distributable income from investments	–	–	–	70 926	70 926
Fair value gain on investments and investment property	54 716	228 878	167 305	113 569	564 468
Loss on disposal of subsidiary	–	–	–	(319)	(319)
Income tax expense	–	–	–	(11 143)	(11 143)
Profit for the year attributable to equity holders	<b>107 123</b>	<b>462 622</b>	<b>399 394</b>	<b>7 305</b>	<b>976 444</b>
<b>Other information</b>					
Investment property	587 500	2 741 900	2 849 011	–	6 178 411
Investments	–	–	–	944 433	944 433
Trade and other receivables	4 026	2 995	3 663	4 415	15 099
Cash and cash equivalents	–	–	–	182	182
Total assets	<b>591 526</b>	<b>2 744 895</b>	<b>2 852 674</b>	<b>949 030</b>	<b>7 138 125</b>
Interest-bearing borrowings	–	–	–	1 326 110	1 326 110
Deferred tax	–	–	–	59 033	59 033
Trade and other payables	9 474	88 306	88 056	8 846	194 682
Unitholders for distribution	–	–	–	228 046	228 046
Bank overdraft	–	–	–	32 192	32 192
Total liabilities	<b>9 474</b>	<b>88 306</b>	<b>88 056</b>	<b>1 654 227</b>	<b>1 840 063</b>
Additions to investment property	–	41 905	386 926	–	428 831

<b>Segmental analysis – 2009</b>	<b>Retail</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Investments and other</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Recoveries and contractual rental revenue	78 940	284 327	236 792	–	600 059
Straight-lining of rental revenue adjustment	(3 298)	10 668	6 232	–	13 602
External segmental revenue	75 642	294 995	243 024	–	613 661
<b>Segment result</b>					
Operating profit	51 254	217 173	179 089	(28 665)	418 851
Finance income	–	–	–	8 617	8 617
Finance costs	–	–	–	(115 583)	(115 583)
Distributable income from investments	–	–	–	49 815	49 815
Fair value gain on investments and investment property	8 335	47 969	74 527	162 367	293 198
Share of post-acquisition reserves from associate	–	–	–	8 493	8 493
Income tax expense	–	–	–	(8 420)	(8 420)
Profit for the year attributable to equity holders	59 589	265 142	253 616	76 624	654 971
<b>Other information</b>					
Investment property	528 000	2 463 648	2 239 901	–	5 231 549
Investments	–	–	–	858 626	858 626
Trade and other receivables	4 184	6 690	7 261	7 362	25 497
Cash and cash equivalents	–	–	–	34 789	34 789
Total assets	532 184	2 470 338	2 247 162	900 777	6 150 461
Interest-bearing borrowings	–	–	–	1 053 965	1 053 965
Deferred tax	–	–	–	47 890	47 890
Trade and other payables	6 594	25 881	26 666	19 591	78 732
Unitholders for distribution	–	–	–	207 093	207 093
Bank overdraft	–	–	–	9 612	9 612
Total liabilities	6 594	25 881	26 666	1 338 151	1 397 292
Additions to investment property	–	172 134	636 475	–	808 610

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

## 1 ACCOUNTING POLICIES

Capital Property Fund (the "Fund") is a Collective Investment Scheme in property domiciled in South Africa. The consolidated financial statements of the Fund for the year ended 31 December 2010 comprise the Fund, its subsidiaries and associates (together referred to as the "Group"). The directors authorised the issue of the financial statements on 2 February 2011.

### 1.1 Basis of preparation

The financial statements and Group financial statements have been prepared on the historical cost basis modified for the fair value adjustment to investment property and financial assets and financial liabilities measured in terms of IAS 39. The financial statements have been prepared on the going concern basis. They are presented in Rand, which is the Group and Fund's functional currency, and all values are rounded to the nearest thousand (R'000) except where otherwise indicated. The accounting policies have remained unchanged from those applied in the prior year other than IAS 12. Refer to note 10 where the changes in accounting policy have been discussed.

### 1.2 Statement of compliance

The financial statements and Group financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of these standards as adopted by the International Accounting Standards Board, the AC 500 standards, the requirements of the South African Companies Act and the Collective Investment Schemes Control Act (Act 45 of 2002) and the Listings Requirements of the JSE Limited.

The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies have been applied consistently by Group entities.

### 1.3 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgements and assumptions that affect reported amounts. It also requires management to exercise its judgement in applying the Group's accounting policies. Actual results may vary from these estimates. The areas involving a higher degree of judgement or complexities or areas where assumptions or estimates are significant are disclosed in note 20. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### 1.4 Basis of consolidation

#### Subsidiaries

The consolidated annual financial statements incorporate the annual financial statements of the Fund and its subsidiaries. Subsidiaries are all entities, including special purpose entities, over which the Group has the power directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a beneficial shareholding of more than one half of the voting rights. The results of subsidiaries are included from the date control was acquired up to the date control ceased. The purchase method of accounting has been adopted to account for the cost of the acquisition of the investments. Cost comprises the fair value of any assets transferred, liabilities or obligations assumed and equity instruments issued and excludes transaction costs.

Investment in subsidiaries of the Fund are reflected at cost less accumulated impairment losses.

Intercompany transactions, balances and unrealised gains/losses on transactions between Group companies are eliminated in the preparation of the consolidated annual financial statements.

The accounting policies of the subsidiaries are consistent with those of the Fund.

#### Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity-accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant

influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Unrealised gains on transactions between the Group and associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the investment in the associates. The investments in associates are accounted for at cost less accumulated impairment in the Fund.

### **1.5 Investment property**

Investment property is property held to earn rental income and for capital appreciation.

The cost of investment property comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment property is capitalised when it is probable that there will be future economic benefits from the use of the asset. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

After initial recognition, investment property is measured at fair value. Fair values are determined annually by external independent registered valuers on the open market value basis. The valuers use either the discounted cash flow method or the capitalisation of net income method or a combination of both methods to determine fair value. Gains or losses arising from changes in the fair values of investment property are included in profit or loss for the year in which they arise. The unrealised gain or loss is transferred to or from non-distributable reserves.

When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains investment property which is measured based on the fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

All costs directly associated with the purchase and construction of a property, and all subsequent capital expenditure for development qualifying as acquisition costs, are capitalised.

Property under development comprises the cost of the land and development and is stated at cost as the fair value of the developments cannot be reliably measured. On completion, property under development is transferred to investment property, where it is measured at fair value.

Borrowing costs are capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the asset is substantially ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of development cost financed out of general funds, the weighted average cost of borrowings.

### **1.6 Non-distributable reserves**

All unrealised gains/losses arising from the movements in fair value of investment property, fair value adjustments on investments, interest rate derivatives, post-acquisition reserves from associates, gains and losses on the sale of investment property and investments, are transferred to non-distributable reserves and are not available for distribution.

### **1.7 Financial instruments**

The Group's financial instruments consist mainly of investments, trade and other receivables, trade and other payables, cash and borrowings.

Financial instruments, other than financial instruments classified as fair value through profit and loss, are initially measured at fair value including transaction costs.

Subsequent to initial recognition these instruments are measured as set out below:

- Cash and cash equivalents – Measured at fair value.
- Investments – Carried at fair value, being the quoted bid price at the reporting date, through profit and loss.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 December 2010*

## 1.7 Financial instruments (continued)

- Trade and other receivables – Stated at amortised cost using the effective interest rate method less accumulated impairment losses.
- Trade and other payables – Stated at amortised cost using the effective interest rate method.
- Related party loans receivable – Stated at amortised cost using the effective interest rate method less accumulated impairment losses.
- Related party loans payable – Stated at amortised cost using the effective interest rate method.
- Financial liabilities – Non-derivative financial liabilities, not at fair value through profit and loss, are recognised at amortised cost using the effective interest rate method.

For all financial instruments carried at amortised cost, where the financial effect of the time value of money is not considered to be material, discounting is not applied as the fair values of these instruments approximate their carrying values.

### 1.7.1 Derecognition

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the contractual rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset,
  - or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### Offset

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

### 1.7.2 Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivatives used as hedges which do not qualify as such in terms of hedge accounting rules, are accounted for as trading instruments.

Derivative financial instruments are recognised initially and subsequently stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the risk being hedged.

The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivative at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

#### **1.7.3 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 value. Bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flow.

#### **1.7.4 Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

#### **1.8 Assets held for sale**

Immediately before classification as held for sale, the measurement of assets is brought up to date in accordance with the applicable IFRS. Then, on initial classification as held for sale, non-current assets, excluding investment property and financial assets within the scope of IAS 39, are recognised at the lower of the carrying amount and fair value less costs to sell.

#### **1.9 Impairment**

##### **Non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting 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 or its cash-generating unit exceeds its recoverable amount and is recognised in profit or loss.

Impairment losses recognised are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

The recoverable amount of an asset or a cash-generating unit is the greater of their fair value less cost to sell and their 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. For any asset that does not generate largely independent cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and there is an indication that the impairment loss no longer exists.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

##### **Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss in respect of an available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 December 2010*

## **1.9 Impairment (continued)**

### **Financial assets (continued)**

All impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined had no impairment loss initially been recognised. An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

## **1.10 Letting commission and tenant installation costs**

Letting commission and tenant installation costs are amortised over the period of the lease. Amounts charged to the statement of comprehensive income in respect of tenant installation costs are recognised as an integral part of total rental income.

## **1.11 Provisions**

Provisions are recognised when the Group has present legal or constructive obligations arising from past events, from which outflows of economic benefits are probable, and where the amount of the obligations can be reliably estimated. Where the effect of discounting is material, provisions are discounted. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## **1.12 Revenue**

Revenue comprises gross rental revenue including all recoveries from tenants, excluding VAT. Rental revenue from investment property is recognised in the statements of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Turnover rentals are recognised on the accrual basis.

Distributions are accrued for on a daily basis using the apportionment method.

Dividend income is recognised when the right to receive payment is established.

## **1.13 Property operating expenses**

Service costs for service contracts entered into and property operating expenses are expensed as incurred.

## **1.14 Net financing costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Finance income comprises interest received and is recognised as it accrues, taking into account the effective yield on the asset.

## **1.15 Income tax**

The Fund is not liable for income tax or capital gains tax as the income and capital gains taxes are payable by the unitholders. The Fund therefore does not provide for current or deferred taxation.

Income tax on subsidiaries' profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss 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 the reporting date, and any adjustment to tax payable in respect of previous years.

To the extent that the current tax is due to the tax authorities at year end, it is recognised as a current liability.

Deferred tax is provided by subsidiaries using the comprehensive 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit/loss, and 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 reporting date.

### 1.16 Segmental reporting

The Group consists of investment property owned by the Fund and its subsidiaries and earns revenue in the form of rentals from tenants of the investment property. On a primary basis the Group is organised into four major business segments, namely retail consisting mainly of shopping centres, commercial comprising mainly office parks and buildings, industrial comprising warehouses and factories, and an investments and other segment comprising all assets, liabilities and expenses not directly attributable to the other segments.

The Group will from time to time invest in/divest from certain primary segments in which case segmental reporting will be adjusted to reflect only the relevant operating segments.

No geographical segmentation information is provided as the associated risks of the geographical segments are considered the same.

### 1.17 Related parties

Related parties in the case of the Group include any unitholder who is able to exert a significant influence on the operating policies of the Group. Directors, their close family members and any employee who is able to exert a significant influence on the operating policies of the Group are also considered to be related parties.

In the case of the Fund, related parties would also include subsidiaries and associates.

### 1.18 Earnings per unit

The Group presents basic earnings per unit and headline earnings per unit for its units.

Basic earnings per unit is calculated by dividing the profit attributable to equity holders by the weighted average number of units in issue during the year.

Headline earnings per unit is calculated by dividing the headline earnings attributable to equity holders by the weighted average number of units in issue during the year.

There are no dilutionary instruments in issue.

## 2 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, as well as the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has delegated the responsibility for developing and monitoring the Group's risk management policies to the audit committee. The audit committee reports to the board of directors on its activities. The audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

### 2.1 Credit risk

Credit risk is the risk of financial loss to the Group if a tenant or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from tenants and investment securities.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 December 2010*

## **2.1 Credit risk (continued)**

### **Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including its industry and geographical spread, reduces credit risk. The majority of rental income is derived from Gauteng and the Western Cape, but within these areas, there is no concentration of credit risk.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. When available, the Group's review includes external ratings.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, industry, size of business and existence of previous financial difficulties. Trade and other receivables relate mainly to the Group's tenants and deposits with municipalities.

### **Investments**

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that are listed on a recognised stock exchange.

### **Cash and cash equivalents**

The Group limits its exposure to credit risk by investing cash and cash equivalents with reputable financial institutions.

## **2.2 Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group receives rental on a monthly basis and uses it to reduce its borrowings. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

## **2.3 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the audit committee.

### **Equity price risk**

The Group is exposed to equity risk on its investments in Nepi and Pangbourne. Refer to note 2 with regards to the Group's risk management policy.

### **Interest rate risk**

The Group adopts a policy of ensuring that at least 50 percent of its exposure to interest rates on borrowings is hedged. This is achieved by entering into interest rate derivatives.

## **2.4 Capital management**

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no changes in the Group's approach to capital management during the year. Neither the Fund nor any of its subsidiaries are subject to externally imposed capital requirements.

Refer to note 19.2 detailing the limitation on borrowings.

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>3 INVESTMENT PROPERTY</b>				
Investment property comprises:				
Investment property	5 923 042	5 033 139	4 411 117	3 649 089
Straight-lining of rental revenue adjustment	88 667	72 319	70 091	48 968
	<b>6 011 709</b>	5 105 458	<b>4 481 208</b>	3 698 057
Investment property under development	166 702	126 091	166 702	126 091
<b>Total investment property</b>	<b>6 178 411</b>	5 231 549	<b>4 647 910</b>	3 824 148
<b>Movement in investment property is as follows:</b>				
Carrying value at the beginning of the year	5 105 458	4 568 695	3 698 057	2 924 720
Additions	428 831	808 610	428 831	808 610
Disposals	(9 000)	(461 202)	(9 000)	(131 135)
Capital expenditure	18 328	13 889	12 403	7 608
Transfer from development property	845	31 033	845	31 033
Fair value adjustment	450 899	130 831	328 949	46 879
Straight-lining of rental revenue adjustment	16 348	13 602	21 123	10 342
Carrying value at the end of the year	<b>6 011 709</b>	5 105 458	<b>4 481 208</b>	3 698 057
<b>Movement in investment property under development is as follows:</b>				
Carrying value at the beginning of the year	126 091	41 703	126 091	41 703
Additions	-	97 102	-	97 102
Cost capitalised	26 984	11 140	26 984	11 140
Interest capitalised	14 472	7 179	14 472	7 179
Transfer to investment property	(845)	(31 033)	(845)	(31 033)
Carrying value at the end of the year	<b>166 702</b>	126 091	<b>166 702</b>	126 091
<b>Total investment property</b>	<b>6 178 411</b>	5 231 549	<b>4 647 910</b>	3 824 148

Investment property with a market value of R4,106 million (Dec 09: R3,608 million) is mortgaged to secure borrowing facilities (refer note 9).

All investment property is externally valued by Peter Parfitt of Quadrant Properties (Proprietary) Limited, a professional associated valuer (Dip Val MIV (SA)). The valuations were done on an open market basis and with consideration to the future earnings potential and an appropriate capitalisation rate for each property. The determined fair value of all investment property is supported by market evidence. The latest valuation was performed as at 1 January 2011.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	GROUP		FUND	
	2010 R'000	2010 R'000	2009 R'000	2009 R'000
<b>GROUP</b>	<b>Pangbourne</b>	<b>Nepi</b>	<b>Pangbourne</b>	<b>Nepi</b>
<b>4 INVESTMENTS</b>				
Holding	9,82%	4,50%	9,82%	10,73%
Price at 31 December	19,50	29,75	17,05	28,10
Cost	534 424	69 294	550 414	89 679
Fair value adjustment	241 892	27 897	138 114	31 636
Accrued distribution	65 479	5 447	47 503	1 280
<b>Total</b>	<b>841 795</b>	<b>102 638</b>	<b>736 031</b>	<b>122 595</b>
<b>Combined total</b>	<b>944 433</b>		<b>858 626</b>	
<b>FUND</b>	<b>Pangbourne</b>	<b>Nepi</b>	<b>Pangbourne</b>	<b>Nepi</b>
Holding	9,82%	4,50%	9,82%	10,73%
Price at 31 December	19,50	29,75	17,05	28,10
Cost	534 424	69 294	550 414	89 679
Fair value adjustment	241 892	27 897	138 114	31 636
Accrued distribution	65 479	5 447	47 503	1 280
<b>Total</b>	<b>841 795</b>	<b>102 638</b>	<b>736 031</b>	<b>122 595</b>
<b>Combined total</b>	<b>944 433</b>		<b>858 626</b>	

## 5 INTEREST IN AND LOANS TO/(FROM) SUBSIDIARIES (WHOLLY-OWNED)

Interest in and loans to/(from) subsidiaries can be analysed as follows:

FUND	2010	2010	2009	2009
	Investment R'000	Loans to R'000	Investment R'000	Loans to/(from) R'000
Bands Properties (Proprietary) Limited	47 534	130 521	47 534	131 721
Monyetla Property Fund Limited	–	–	195 330	438 314
Monyetla Property Holdings (Proprietary) Limited	*	366 612	*	(166 130)
	47 534	497 133	242 864	403 905

\*Less than R1 000

The loans to/(from) subsidiaries are unsecured, interest free and terms of repayment have not been determined. The loans will be settled in cash in the event that the subsidiaries' properties are sold.

	FUND	
	2010 R'000	2009 R'000
<b>Profits from subsidiaries are as follows:</b>		
Profits	94 625	103 901
	94 625	103 901

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>6 TRADE AND OTHER RECEIVABLES</b>				
Municipal deposits	3 960	3 883	2 522	2 459
Tenant arrears	4 058	6 759	2 862	5 100
Interest rate derivative debtor	30	724	30	724
Other	7 051	14 131	4 776	3 676
	15 099	25 497	10 190	11 959
<b>7 CASH AND CASH EQUIVALENTS</b>				
Deposits at banks*	182	34 789	171	35
Bank overdraft	(32 192)	(9 612)	(31 913)	(9 612)
	(32 010)	25 177	(31 742)	(9 577)

\*Included in deposits at banks in 2009 is R34,8 million restricted cash which forms part of the securitisation structure.

## 8 TRUST CAPITAL

	2010		2009	
	Number of units in issue	R'000	Number of units in issue	R'000
	Capital	717 578 059	2 645 963	717 578 059

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

9 INTEREST-BEARING BORROWINGS

2010	Nominal interest rate	Date of maturity	GROUP		FUND	
			Fair value R'000	Carrying amount R'000	Fair value R'000	Carrying amount R'000
Standard Bank	3 month Jibar + 1,55%	Mar 11	62 707	62 707	62 707	62 707
Standard Bank	3 month Jibar + 1,85%	Mar 11	18 196	18 196	18 196	18 196
Standard Bank	3 month Jibar + 1,75%	Mar 11	30 519	30 519	30 519	30 519
Standard Bank	1 month Jibar + 1,94%	Feb 11	50 000	50 000	50 000	50 000
Standard Bank	3 month Jibar + 1,75%	Feb 11	155 596	155 596	155 596	155 596
ABSA Bank	Prime less 1,25%	Nov 13	94 836	94 836	94 836	94 836
ABSA Bank	3 month Jibar + 2,05%	Nov 13	75 000	75 000	75 000	75 000
Old Mutual	6,50%	Repayment on demand	150 828	150 828	150 828	150 828
Nedbank	Prime less 2,30%	Oct 11	164 483	164 483	164 483	164 483
Nedbank	Prime less 1,00%	Sep 14	38 324	38 324	38 324	38 324
Rand Merchant Bank	Prime less 1,48%	Oct 12	112 892	112 892	112 892	112 892
Securitisation debt	9,98%	Jul 12	148 268	148 268	-	-
Securitisation debt	9,53%	Jul 12	224 461	224 461	-	-
			1 326 110	1 326 110	953 381	953 381
Less short-term portion			(632 329)	(632 329)	(632 329)	(632 329)
			693 781	693 781	321 052	321 052

2009	Nominal interest rate	Date of maturity	GROUP		FUND	
			Fair value R'000	Carrying amount R'000	Fair value R'000	Carrying amount R'000
Standard Bank	3 month Jibar + 1,965%	Feb 11	26 093	26 093	26 093	26 093
Standard Bank	1 month Jibar + 1,940%	Feb 11	100 000	100 000	100 000	100 000
Standard Bank	3 month Jibar + 1,750%	Feb 11	155 352	155 352	155 352	155 352
ABSA Bank	Prime less 1,25%	Nov 13	79 168	79 168	79 168	79 168
ABSA Bank	3 month Jibar + 2,05%	Nov 13	75 000	75 000	75 000	75 000
Nedbank	Prime less 2,30%	Oct 11	145 646	145 646	145 646	145 646
Nedbank	Prime less 1,00%	Sep 14	38 333	38 333	38 333	38 333
Rand Merchant Bank	Prime less 1,50%	Apr 10	59 852	59 852	60 023	60 023
Securitisation debt	9,98%	Jul 12	148 981	148 981	-	-
Securitisation debt	9,53%	Jul 12	225 540	225 540	-	-
			1 053 965	1 053 965	679 615	679 615
Less short-term portion			-	-	-	-
			1 053 965	1 053 965	679 615	679 615

Interest-bearing borrowings are measured at amortised cost. The Group's exposure to interest rate and liquidity risk is discussed in note 19.

The bank loans are secured over investment property with a carrying amount of R4,106 million (Dec 09: R3,608 million).

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>10 DEFERRED TAX</b>				
Deferred tax comprises the following:				
– Revaluation of investment property	63 809	47 890	–	–
– Other	(4 776)	–	–	–
	<b>59 033</b>	47 890	–	–
Balance previously reported at the beginning of the year		67 087		
Change in accounting policy		(27 547)		
Restated balance at the beginning of the year	<b>47 890</b>	39 540		
Charged to the statement of comprehensive income during the year	<b>11 143</b>	35 600		
Change in accounting policy		(27 250)		
Restated balance at the end of the year	<b>59 033</b>	47 890		

Deferred tax is provided at 14% (Dec 09: 14%) on investment property. The deferred tax relates to the fair value movements of investment property owned by Bands Properties (Proprietary) Limited and Monyetla Property Holdings (Proprietary) Limited, wholly-owned subsidiaries of Capital Property Fund.

In December 2010 the IASB released amendments to IAS 12 effective from 1 January 2012. These amendments impact on the rate at which deferred tax is recognised specifically on the fair value movements of the building component of investment property as it establishes a presumption that it will be recovered through disposal and hence will attract deferred tax at the capital gains tax rate. Capital has elected the early adoption of these amendments and applied them retrospectively as required by IAS 8. It is the view of the board that the adoption of this policy results in more accurate and meaningful information. Refer to the statement of changes in unitholders' interest.

The effect of the change in accounting policy is a reduction of the deferred tax balance as stated above, with the corresponding increase in reserves as reflected in the statement of changes in unitholders' interest. In addition, the 2009 statement of comprehensive income tax charge was R35 670 000 and is now R8 420 000.

<b>11 TRADE AND OTHER PAYABLES</b>				
Tenant deposits	22 032	21 146	14 634	13 737
Amounts owing for buildings acquired	82 143	–	82 143	–
Interest rate derivative creditor	31 127	7 359	31 127	7 122
Accruals and other payables	59 380	50 227	42 579	35 865
	<b>194 682</b>	78 732	<b>170 483</b>	56 724

<b>12 PROFIT BEFORE NET FINANCE COSTS</b>				
Profit before net finance costs is stated after charging:				
– Auditors' remuneration – audit services	540	510	540	510
– Asset management fee*	33 248	26 223	33 248	26 223
– Other costs	1 757	1 932	1 844	2 266
Administrative expenses	<b>35 545</b>	28 665	<b>35 632</b>	28 999
– Impairment charge	3 774	8 839	4 296	3 467
– Letting commission and tenant installation	8 907	1 622	4 765	153
– Expenditure relating to income producing properties	172 383	139 592	124 041	89 793
– Remuneration for managerial services	17 459	16 092	11 946	9 548
Property expenses relating to income producing properties	<b>202 523</b>	166 145	<b>145 048</b>	102 961

\*The asset management fee is equal to 0.5% per annum of the Fund's market capitalisation and borrowing facilities and a pro rata portion is payable on a monthly basis. The market capitalisation is based on the closing bid price of the units as quoted on the JSE Limited.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>13 INCOME TAX EXPENSE</b>				
South African normal tax				
– Income tax	–	(70)	–	–
– Deferred tax	(11 143)	(8 350)	–	–
	(11 143)	(8 420)	–	–
<b>RECONCILIATION OF TAX RATE</b>				
Standard tax rate	28,00%	28,00%	28,00%	28,00%
Capital gains tax differential	–	0,26%	–	–
Deferred tax rate differential	(5,90%)	1,60%	–	–
Exempt income and other	(20,97%)	(28,59%)	(28,00%)	(28,00%)
Effective tax rate	1,13%	1,27%	–	–

	GROUP	
	2010 R'000	2009 R'000
<b>14 RECONCILIATION OF PROFIT FOR THE YEAR TO HEADLINE EARNINGS AND DISTRIBUTABLE INCOME</b>		
<b>Profit for the year attributable to equity holders</b>	976 444	654 971
Adjusted for:	(433 962)	(122 411)
– Fair value gain on investment property	(467 247)	(144 433)
– Fair value adjustment resulting from straight-lining of rental revenue	16 348	13 602
– Impairment of subsidiary loans	319	–
– Income tax expense	16 618	8 420
<b>Headline earnings</b>	542 482	532 560
Headline earnings per unit (cents)*	75,60	79,69
<b>Reconciliation of profit for the year to amount available for distribution</b>		
Profit for the year attributable to equity holders	976 444	654 971
Straight-lining of rental revenue adjustment	(16 348)	(13 602)
Fair value gain on investment property	(467 247)	(144 433)
Fair value adjustment resulting from straight-lining of rental revenue	16 348	13 602
Fair value gain on investments	(113 569)	(162 367)
Impairment of subsidiary loans	319	–
Profit from associate	–	(429)
Fair value adjustment on interest rate derivatives	24 461	10 125
Income tax expense	11 143	8 420
<b>Distributable income</b>	431 551	366 287
<b>Distribution declared</b>	431 551	366 287
Interim	203 505	159 194
Final	228 046	207 093

Basic earnings per unit is 136,07 cents (2009: 98,01 cents). The calculation of the basic earnings per unit is based on a weighted average number of units in issue during the year of 717 578 059 (2009: 668 263 543) and earnings of R976,444 million (2009: R654,971 million).

Headline earnings per unit is 75,60 cents (2009: 79,69 cents). The calculation of headline earnings per unit is based on a weighted average number of units in issue during the year of 717 578 059 (2009: 668 263 543) and headline earnings of R542,482 million (2009: R532,560 million).

\*The Fund has no dilutionary instruments in issue

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>15 NOTES TO THE STATEMENTS OF CASH FLOW</b>				
<b>15.1 Income tax paid</b>				
Amounts unpaid at the beginning of the year	-	-	-	-
Amounts charged to the statement of comprehensive income during the year	-	70	-	-
Amounts unpaid at the end of the year	-	-	-	-
	-	70	-	-
<b>15.2 Distributions paid</b>				
Amounts unpaid at the beginning of the year	207 093	154 003	207 093	154 003
Amounts declared during the year	431 551	366 287	431 551	366 287
Amounts unpaid at the end of the year	(228 046)	(207 093)	(228 046)	(207 093)
	410 598	313 197	410 598	313 197
<b>15.3 Proceeds from the issue of units</b>				
Units issued	-	664 200	-	664 200
Cash flow effect	-	664 200	-	664 200
<b>15.4 Impairment of subsidiary loans</b>				
Trade and other receivables	319	-	-	-
Impairment of subsidiary loans	(319)	-	-	-
Cash flow effect	-	-	-	-
<b>16 OPERATING LEASE RENTALS</b>				
Contractual rental income from tenants can be analysed as follows:				
Within one year	485 801	434 321	388 869	315 987
Within two to five years	848 752	834 147	714 559	638 400
More than five years	122 764	157 859	103 616	131 363
	1 457 317	1 426 327	1 207 044	1 085 750

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	2010	2009
	R'000	R'000
<b>17 CAPITAL COMMITMENTS</b>		
Contractual capital commitments at year end, which will be funded from available debt facilities, were as follows:		
Authorised and contracted	9 035	222 482
Authorised and not yet contracted	67 240	41 638
	<b>76 275</b>	<b>264 120</b>

**18 SUBSEQUENT EVENTS**

The directors are not aware of any events subsequent to 31 December 2010, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report.

	GROUP		FUND	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
<b>19 FINANCIAL INSTRUMENTS</b>				
<b>19.1 Credit risk</b>				
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:				
Trade and other receivables	15 099	25 497	10 190	11 959
Cash and cash equivalents	182	34 789	171	35
The maximum exposure to credit risk for trade receivables at the reporting date by industry was:				
Industrial	3 663	7 261	5 185	3 978
Commercial	2 995	6 690	1 062	3 664
Retail	4 026	4 184	1 816	2 151
Investments and other	4 415	7 362	2 127	2 166
Gross exposure	15 099	25 497	10 190	11 959
Tenant arrears covered by deposits	(3 170)	(6 759)	(2 219)	(5 100)
Net exposure	11 929	18 738	7 971	6 859

The ageing of trade receivables at the reporting date was less than 90 days. All amounts past due and irrecoverable are impaired in full. At 31 December 2010 debtors past due were Rnil (2009: Rnil).

The Group believes that no impairment allowance is necessary in respect of trade receivables as a comprehensive analysis of outstanding amounts are performed on a regular basis and impairment losses are accounted for timeously. Doubtful amounts are impaired when recoverability is in question.

## 19.2 Liquidity risk

The maturity of the undiscounted contractual financial liabilities excluding the impact of netting agreements are as follows:

GROUP	1 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000
<b>2010</b>			
<b>Non-derivative financial liabilities</b>			
Secured bank loans – capital	629 812	484 724	207 324
Secured bank loans – interest	2 517	897	836
Trade and other payables	163 555		
Bank overdraft	32 192		
<b>Derivative financial liabilities</b>			
Interest rate derivative creditor	31 127		
<b>2009</b>			
Secured bank loans – capital		425 602	613 154
Secured bank loans – interest	15 209		
Trade and other payables	71 373		
Bank overdraft	9 612		
<b>Derivative financial liabilities</b>			
Interest rate derivative creditor	7 359		
<b>FUND</b>			
<b>2010</b>			
<b>Non-derivative financial liabilities</b>			
Secured bank loans – capital	629 812	112 112	207 324
Secured bank loans – interest	2 517	780	836
Trade and other payables	139 356		
Bank overdraft	31 913		
<b>Derivative financial liabilities</b>			
Interest rate derivative creditor	31 127		
<b>2009</b>			
Secured bank loans – capital		425 602	251 154
Secured bank loans – interest	2 859		
Trade and other payables	49 602		
Bank overdraft	9 612		
<b>Derivative financial liabilities</b>			
Interest rate derivative creditor	7 122		

Cash flows are monitored on a regular basis to ensure that cash resources are adequate to meet funding requirements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	GROUP	
	2010	2009
	R'000	R'000
<b>Permitted borrowings for the Group</b>		
Value of property portfolio	6 178 411	5 231 549
60% (2009: 30%) of portfolio value	3 707 047	1 569 465
Total borrowings	(1 358 120)	(1 063 577)
Unutilised borrowing capacity	2 348 927	505 888

**19.3 Interest rate risk**

The Group adopts a policy of ensuring that at least 50% of its exposure to interest rates on borrowings is hedged.

Details of existing interest rate derivatives are:

GROUP 2010	Swap maturity	Nominal amount R'000	Swap rate	Fair value R'000
	Feb 11	100 000	7,85%	(316)
	May 11	100 000	7,68%	(750)
	Dec 11	50 000	8,29%	(1 292)
	Feb 13	100 000	8,18%	(4 330)
	Dec 13	100 000	8,02%	(4 522)
	May 14	50 000	8,67%	(3 215)
	May 14	100 000	8,60%	(6 215)
	Aug 14	100 000	7,15%	(1 670)
	Jul 15	100 000	7,50%	(2 050)
	Dec 15	100 000	7,85%	(3 203)
	Dec 16	200 000	7,50%	(1 705)
	Dec 17	200 000	7,66%	(1 829)

FUND 2010	Swap maturity	Nominal amount R'000	Swap rate	Fair value R'000
	Feb 11	100 000	7,85%	(316)
	May 11	100 000	7,68%	(750)
	Dec 11	50 000	8,29%	(1 292)
	Feb 13	100 000	8,18%	(4 330)
	Dec 13	100 000	8,02%	(4 522)
	May 14	50 000	8,67%	(3 215)
	May 14	100 000	8,60%	(6 215)
	Aug 14	100 000	7,15%	(1 670)
	Jul 15	100 000	7,50%	(2 050)
	Dec 15	100 000	7,85%	(3 203)
	Dec 16	200 000	7,50%	(1 705)
	Dec 17	200 000	7,66%	(1 829)

<b>GROUP 2009</b>	<b>Swap maturity</b>	<b>Nominal amount R'000</b>	<b>Swap rate</b>	<b>Fair value R'000</b>
	May 10	45 600	8,67%	(299)
	Oct 10	50 000	9,19%	(1 012)
	Feb 11	100 000	7,85%	(773)
	May 11	100 000	7,68%	(598)
	Dec 11	50 000	8,29%	(704)
	Dec 11	50 000	8,53%	(896)
	Feb 12	50 000	8,04%	(412)
	Feb 13	100 000	8,18%	(411)
	Oct 13	50 000	9,47%	(2 097)
	May 14	100 000	8,595%	(847)
	May 14	50 000	8,67%	(563)
	Aug 15	50 000	8,39%	427

<b>FUND 2009</b>	<b>Swap maturity</b>	<b>Nominal amount R'000</b>	<b>Swap rate</b>	<b>Fair value R'000</b>
	Oct 10	50 000	9,19%	(1 012)
	Feb 11	100 000	7,85%	(773)
	May 11	100 000	7,68%	(598)
	Dec 11	50 000	8,29%	(704)
	Dec 11	50 000	8,53%	(896)
	Feb 12	50 000	8,04%	(412)
	Feb 13	100 000	8,18%	(411)
	Oct 13	50 000	9,47%	(2 097)
	May 14	100 000	8,595%	(847)
	May 14	50 000	8,67%	(563)
	Aug 15	50 000	8,39%	427

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

**19.3 Interest rate risk (continued)**

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	<b>Profit or loss 100 basis point increase</b>	<b>Profit or loss 100 basis point decrease</b>
<b>GROUP 2010</b>		
Interest-bearing borrowings	(13 261)	13 261
Hedged borrowings	13 000	(13 000)
Cash flow sensitivity (net)	(261)	261
<b>FUND 2010</b>		
Interest-bearing borrowings	(9 534)	9 534
Hedged borrowings	13 000	(13 000)
Cash flow sensitivity (net)	3 466	(3 466)
<b>GROUP 2009</b>		
Interest-bearing borrowings	(12 891)	12 891
Hedged borrowings	11 576	(11 576)
Cash flow sensitivity (net)	(1 315)	1 315
<b>FUND 2009</b>		
Interest-bearing borrowings	(5 371)	5 371
Hedged borrowings	7 500	(7 500)
Cash flow sensitivity (net)	2 129	(2 129)

#### 19.4 Fair value

The fair value of all financial instruments are substantially the same as the carrying amounts reflected on the statement of financial position.

	At fair value through profit and loss	Loans and receivables R'000	Financial liabilities at amortised cost R'000	Total carrying amount R'000	Fair value R'000
<b>GROUP 2010</b>					
Cash and cash equivalents	-	182	-	182	182
Bank overdraft	-	(32 192)	-	(32 192)	(32 192)
Interest-bearing borrowings	-	-	(1 326 110)	(1 326 110)	(1 326 110)
Trade and other receivables	-	15 069	-	15 069	15 069
Interest rate derivative debtor - level 2	30	-	-	30	30
Interest rate derivative creditor - level 2	(31 127)	-	-	(31 127)	(31 127)
Trade and other payables and unitholders for distribution	-	-	(391 601)	(391 601)	(391 601)
Investments - level 1	944 433	-	-	944 433	944 433
	<b>913 336</b>	<b>(16 941)</b>	<b>(1 717 711)</b>	<b>(821 316)</b>	<b>(821 316)</b>
<b>FUND 2010</b>					
Cash and cash equivalents	-	171	-	171	171
Bank overdraft	-	(31 913)	-	(31 913)	(31 913)
Interest-bearing borrowings	-	-	(953 381)	(953 381)	(953 381)
Trade and other receivables	-	10 160	-	10 160	10 160
Interest rate derivative debtor - level 2	30	-	-	30	30
Interest rate derivative creditor - level 2	(31 127)	-	-	(31 127)	(31 127)
Trade and other payables and unitholders for distribution	-	-	(367 402)	(367 402)	(367 402)
Investments - level 1	944 433	-	-	944 433	944 433
	<b>913 336</b>	<b>(21 582)</b>	<b>(1 320 783)</b>	<b>(429 029)</b>	<b>(429 029)</b>
<b>GROUP 2009</b>					
Cash and cash equivalents	-	34 789	-	34 789	34 789
Bank overdraft	-	(9 612)	-	(9 612)	(9 612)
Interest-bearing borrowings	-	-	(1 053 965)	(1 053 965)	(1 053 965)
Trade and other receivables	-	24 773	-	24 773	24 773
Interest rate derivative debtor - level 2	724	-	-	724	724
Interest rate derivative creditor - level 2	(7 359)	-	-	(7 359)	(7 359)
Trade and other payables and unitholders for distribution	-	-	(278 466)	(278 466)	(278 466)
Investments - level 1	858 626	-	-	858 626	858 626
	<b>851 991</b>	<b>49 950</b>	<b>(1 332 431)</b>	<b>(430 490)</b>	<b>(430 490)</b>
<b>FUND 2009</b>					
Cash and cash equivalents	-	35	-	35	35
Bank overdraft	-	(9 612)	-	(9 612)	(9 612)
Interest-bearing borrowings	-	-	(679 615)	(679 615)	(679 615)
Trade and other receivables	-	11 235	-	11 235	11 235
Interest rate derivative debtor - level 2	724	-	-	724	724
Interest rate derivative creditor - level 2	(7 122)	-	-	(7 122)	(7 122)
Trade and other payables and unitholders for distribution	-	-	(256 695)	(256 695)	(256 695)
Investments - level 1	858 626	-	-	858 626	858 626
	<b>852 228</b>	<b>1 658</b>	<b>(936 310)</b>	<b>(82 424)</b>	<b>(82 424)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

*for the year ended 31 December 2010*

## 20 ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discusses with the audit committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates. The revaluation of investment property requires judgement in the determination of an appropriate capitalisation rate. Changes in the capitalisation rate attributable to changes in market conditions can have a significant impact on property valuations. The impairment of tenant arrears requires judgement as to the recoverability of the arrears.

## 21 RELATED PARTY TRANSACTIONS

### Parent entity

The holding entity of the subsidiaries is Capital Property Fund.

### Identity of related parties with whom material transactions have occurred

The subsidiaries of the Fund are identified in note 5 of these financial statements. These entities are related parties of the Fund.

PFM is the management company of the Fund in terms of the Collective Investment Schemes Control Act.

Resilient, the owner of PFM, owns a significant number of units in the Fund.

The Fund owns 20% of the property known as N1 Business Park and has a joint operations agreement with Imbali Props 7 (Proprietary) Limited, which owns 60% of N1 Business Park, to develop this property. Jorge da Costa, who is an independent non-executive director of PFM has a 25% interest in Imbali Props 7 (Proprietary) Limited.

The Fund owns 25% of the property known as Montague Business Park and has a joint operations agreement with Imbali Props 7 (Proprietary) Limited, which owns 50% of Montague Business Park, to develop this property. Jorge da Costa, who is an independent non-executive director of PFM has a 25% interest in Imbali Props 7 (Proprietary) Limited.

	GROUP		FUND	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
<b>Management company</b>				
Asset management fee paid to PFM	33 248	26 223	33 248	26 223
Unit creation fee paid to PFM	–	295	–	295
<b>Material related party transactions</b>				
<b>Subsidiaries</b>				
Loans to/from subsidiaries (refer note 5)				

## 22 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

Standard	Details of Amendment	Annual periods beginning on or after
IFRS 3: Business Combinations	<ul style="list-style-type: none"> <li>• Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.</li> </ul>	1 January 2011
	<ul style="list-style-type: none"> <li>• Measurement of non-controlling interests.</li> </ul>	1 January 2011
	<ul style="list-style-type: none"> <li>• Un-replaced and voluntarily replaced share-based payment awards.</li> </ul>	1 January 2011
	<ul style="list-style-type: none"> <li>• Amendments require additional disclosure on transfer transactions of financial assets, including the possible effects of any residual risks that the transferring entity retains. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.</li> </ul>	7 January 2011
IFRS 7: Financial Instruments: Disclosures	<ul style="list-style-type: none"> <li>• Clarification of disclosures.</li> </ul>	1 January 2011
	<ul style="list-style-type: none"> <li>• Additional disclosure on transfer transactions of financial assets.</li> </ul>	7 January 2011
IFRS 9: Financial Instruments	<ul style="list-style-type: none"> <li>• New standard that forms the first part of a three part project to replace IAS 39 Financial Instruments: Recognition and Measurement.</li> </ul>	1 January 2013
IAS 1: Presentation of Financial Statements	<ul style="list-style-type: none"> <li>• Clarification of statement of changes in equity.</li> </ul>	1 January 2011
IAS 24: Related Party Disclosure	<ul style="list-style-type: none"> <li>• Simplification of the disclosure requirements for government related entities.</li> </ul>	1 January 2011
IAS 34: Interim Financial Reporting	<ul style="list-style-type: none"> <li>• Clarification of the definition of related party.</li> </ul>	1 January 2011
	<ul style="list-style-type: none"> <li>• Significant events and transactions.</li> </ul>	1 January 2011

Interpretations	Annual periods beginning on or after
IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments	4 January 2010

Management estimates that the adoption of these standards and interpretations will not significantly impact the financial statements.

## SCHEDULE OF PROPERTIES

	<b>Property name</b>	<b>Address</b>	<b>Province</b>	<b>Sector</b>
1	Grand Central	Cnr Darling and Plein Streets Cape Town	Western Cape	Retail/Commercial
2	Long Street Cape Town	2 Long Street Cape Town	Western Cape	Commercial
3	Isando Business Park	Cnr Andre Greyvenstein Avenue and Hulley Road and Vanacht Street and 14 Skietlood Street Kempton Park	Gauteng	Industrial
4	Monyetla Office Park	Inyanga Close Sunninghill	Gauteng	Commercial
5	City Deep Industrial Park	Cnr Outspan Road and Fortune Street Johannesburg	Gauteng	Industrial
6	Leeuwkop Road	Cnr Simba and Leeuwkop Road Sunninghill	Gauteng	Commercial
7	Cullinan Office Park	2 Cullinan Place Morningside	Gauteng	Commercial
8	Nokia Siemens Networks	Oak Avenue Highveld Business Park Centurion	Gauteng	Commercial
9	Wedgewood Office Park	3 Muswell Road Bryanston	Gauteng	Commercial
10	PricewaterhouseCoopers Pretoria	Ida Street Menlo Park	Gauteng	Commercial
11	Mutsindo Mall & Capricorn Plaza	Post Office Street Thohoyandou	Limpopo	Retail
12	3 - 4 Drakensberg Drive Longmeadow	3 - 4 Drakensberg Drive Longmeadow	Gauteng	Industrial
13	Surprise Park Pinetown	Surprise Road Pinetown	KwaZulu-Natal	Industrial
14	Medscheme	37 Conrad Drive Constantia Kloof	Gauteng	Commercial
15	31 Jeffels Road Prospecton	31 Jeffels Road Prospecton	KwaZulu-Natal	Industrial
16	11 Fitzmaurice Epping	11 Fitzmaurice Epping	Western Cape	Industrial
17	11 Naivasha Road	11 Naivasha Road Sunninghill	Gauteng	Commercial
18	15th Road Midrand	15th Road Midrand	Gauteng	Industrial
19	Caxton House East London	35 Terminus Street East London	Eastern Cape	Commercial
20	Mahogany Road	19 – 21 Sugarbush Crescent Mahogany Ridge Pinetown	KwaZulu-Natal	Industrial
21	114 Dennis Road Athol Gardens	114 Dennis Road Athol Gardens	Gauteng	Commercial
22	Chemserve Spartan	3 Johann Birkart Road Kempton Park	Gauteng	Industrial
23	Parc Nicol	3001 William Nicol Drive Bryanston	Gauteng	Commercial
24	City Deep Hi-Tech	Outspan Road City Deep	Gauteng	Industrial

GLA (m <sup>2</sup> )	Valuation (R'000)	Purchase price (R'000)	Effective date of acquisition	Rental per m <sup>2</sup> (R)	Vacancy
33 616	398 000	159 000	Aug 2004	95	
23 295	322 000	59 000	Jan 2003	96	14%
56 606	251 000	256 000	Aug 2009	42	20%
17 535	243 000	217 000	Dec 2008	103	1%
61 608	237 000	191 000	Aug 2009	34	
11 747	148 000	120 247	Nov 2006 and Aug 2007	100	
9 227	140 400	116 000	Oct 2009	96	
11 700	138 000	121 000	Oct 2007	92	
9 625	131 300	110 500	Dec 2008	105	
6 405	124 300	39 636	Dec 2000	133	
12 330	123 000	65 250	Sep 2005 and Aug 2006	85	
15 614	109 000	107 666	Feb 2010	54	
25 333	103 200	13 000	Aug 2004	35	
6 792	101 000	74 777	Dec 2006	120	
20 045	96 700	94 000	Dec 2010	38	
17 631	92 400	23 000	Aug 2004	45	
6 659	88 600	50 323	Nov 2006	96	
14 308	86 400	24 640	Aug 2004	46	
10 275	85 700	21 566	Aug 2004	71	
16 209	82 000	65 000	May 2009	43	
5 736	79 000	57 200	Dec 2008	88	
14 556	78 400	67 500	Aug 2009	41	
5 606	74 600	67 300	Dec 2008	120	13%
18 125	70 800	46 000	Sep 2007	34	

## SCHEDULE OF PROPERTIES (CONTINUED)

	<b>Property name</b>	<b>Address</b>	<b>Province</b>	<b>Sector</b>
25	28 On Sloane	28 Sloane Street Bryanston	Gauteng	Commercial
26	West Street Durban	336 – 342 West Street Durban	KwaZulu-Natal	Retail
27	Corporate Park North	Roan Crescent Corporate Park North Midrand	Gauteng	Industrial
28	Shoprite Centre Pretoria North	Cnr B Viljoen and DF Malan Streets Pretoria North	Gauteng	Retail
29	Platinum Road	Platinum Road Longmeadow	Gauteng	Industrial
30	Harries Street Germiston	Cnr Harries and Sigma Roads Germiston South	Gauteng	Industrial
31	Otto Volek Road Pinetown	22 Otto Volek Road Pinetown	KwaZulu-Natal	Industrial
32	19 Girton Road Parktown	19 Girton Road Parktown	Gauteng	Commercial
33	Culross Court Bryanston	16 Culross Road Bryanston	Gauteng	Commercial
34	Centurion Office Park	Hendrik Verwoerd Drive Centurion	Gauteng	Commercial
35	Tiger Moth Road Aeroton	Cnr Tiger Moth and Guy Gibson Road Aeroton	Gauteng	Industrial
36	Noursepack Epping II	Nourse Avenue Epping	Western Cape	Industrial
37	45 Angus Crescent	45 Angus Crescent Longmeadow	Gauteng	Industrial
38	Westway Office Park	Spine Road Westville	KwaZulu-Natal	Commercial
39	Homeworld Centre	Malibongwe Drive Randburg	Gauteng	Retail
40	Cambridge Manor Paulshof	Witkoppen Road Paulshof	Gauteng	Commercial
41	Constantia View Office Park	2 Hogsback Road Quellerina	Gauteng	Commercial
42	Watt Road Uitenhage	Watt Road Uitenhage	Eastern Cape	Industrial
43	Appleton's	Malibongwe Drive Randburg	Gauteng	Retail
44	Cape Road Port Elizabeth	Cnr Cape Road and Langenhoven Drive Port Elizabeth	Eastern Cape	Commercial
45	33 Angus Crescent	33 Angus Crescent Longmeadow	Gauteng	Industrial
46	Blackheath Pavilion	309 Pendoring Road Blackheath	Gauteng	Retail
47	Howick Close	Howick Close Midrand	Gauteng	Commercial
48	4th Street Wynberg	4th Street Wynberg	Gauteng	Industrial

GLA (m <sup>2</sup> )	Valuation (R'000)	Purchase price (R'000)	Effective date of acquisition	Rental per m <sup>2</sup> (R)	Vacancy
4 681	69 000	56 000	Oct 2009	117	
6 202	67 800	18 912	Aug 2004	87	
11 402	65 300	33 466	Mar 2006	42	
6 442	62 900	29 000	Aug 2004	63	
7 386	61 500	50 519	Jun 2007	63	
17 592	60 400	24 000	Aug 2004	29	
18 296	60 000	16 557	Aug 2004	31	21%
7 384	59 800	47 000	Dec 2008	70	
4 070	58 000	45 000	Dec 2008	104	1%
7 660	55 500	23 017	Aug 2004	75	24%
15 893	55 500	13 887	Jun 1993	28	
17 486	55 500	6 591	Aug 1984	24	
7 985	52 800	40 068	Mar 2007	54	
3 794	51 200	41 905	Nov 2010	97	
6 582	51 000	27 000	Aug 2004	80	9%
7 016	50 400	49 000	Dec 2008	72	25%
5 210	49 800	48 500	Dec 2008	75	6%
23 370	49 500	45 300	Dec 2008	22	
3 772	49 500	45 700	Dec 2008	138	11%
5 127	48 900	15 000	Aug 2004	80	4%
7 503	48 100	43 514	Jun 2007	55	
6 229	47 600	38 500	Dec 2008	79	4%
3 949	46 200	14 841	Aug 2004	88	
13 011	42 500	7 943	Aug 2004	29	

## SCHEDULE OF PROPERTIES (CONTINUED)

	<b>Property name</b>	<b>Address</b>	<b>Province</b>	<b>Sector</b>
49	9 Ayshire Avenue Longmeadow	9 Ayshire Avenue Longmeadow	Gauteng	Industrial
50	N1 Business Park*	N1 Highway Midrand	Gauteng	Industrial
51	Rigger Road Spartan	79 – 83 Rigger Road Spartan	Gauteng	Industrial
52	Brands Hatch Close	Cnr Indianapolis and Brands Hatch Close Kyalami Park	Gauteng	Industrial
53	189 Monte Carlo Crescent Kyalami	189 Monte Carlo Crescent Kyalami Park	Gauteng	Commercial
54	87 - 91 Goodwood Road	87 - 91 Goodwood Road Mahogany Ridge Pinetown	KwaZulu-Natal	Industrial
55	Corporate Place Cape Town	17 Mispel Avenue Bellville Cape Town	Western Cape	Commercial
56	Westmead Road Pinetown	4 – 10 Westmead Road Westmead Pinetown	KwaZulu-Natal	Industrial
57	Covora Road	Covora Road Jet Park	Gauteng	Industrial
58	146 Serenade Road Rustivia	146 Serenade Road Rustivia	Gauteng	Industrial
59	Standard Bank Crossing	1 Twilight Avenue Fourways	Gauteng	Commercial
60	14 Fitzmaurice Avenue Epping 2	14 Fitzmaurice Avenue Epping 2	Western Cape	Industrial
61	31 Beacon Road Florida North	31 Beacon Road Florida North	Gauteng	Commercial
62	38 Reedbuck Crescent	38 Reedbuck Crescent Corporate Park Midrand	Gauteng	Industrial
63	Director and Megawatt Road	Cnr Director and Megawatt Road Spartan	Gauteng	Industrial
64	Robertville Industrial	Katrol Avenue Robertville	Gauteng	Industrial
65	McCarthy Isando	Industries Road Isando	Gauteng	Industrial
66	357 Rivonia Boulevard	357 Rivonia Boulevard Edenburg	Gauteng	Commercial
67	Rutherfords	Cnr Smit Street and Harris Street Industries West Germiston	Gauteng	Industrial
68	Imperial Motors Strijdom Park	Cnr Malibongwe Drive and Tungsten Road Randburg	Gauteng	Retail
69	Ayshire Avenue	Ayshire Avenue Longmeadow	Gauteng	Industrial
70	Chelsea Office Park Rivonia	57 Wessels Road Rivonia	Gauteng	Commercial
71	Citrus Street	Citrus Street Laser Park	Gauteng	Industrial
72	Armstrong Road La Lucia	8 Torsvale and Armstrong Roads La Lucia	KwaZulu-Natal	Commercial

GLA (m <sup>2</sup> )	Valuation (R'000)	Purchase price (R'000)	Effective date of acquisition	Rental per m <sup>2</sup> (R)	Vacancy
7 090	42 200	41 169	Feb 2010	45	
26 488	41 140	16 912	Aug 2006	62	15%
8 229	40 500	8 900	Aug 2004	45	
6 597	39 100	26 890	Nov 2006	53	
5 212	39 000	28 800	Dec 2008	67	
6 447	38 800	33 600	Oct 2010	45	
4 328	37 400	4 681	Feb 1996	71	18%
8 921	36 800	3 186	May 1988	37	
9 197	34 400	28 700	Jun 2007	35	7%
4 400	34 400	30 519	Feb 2010	58	
2 194	31 300	13 900	Aug 2004	105	
9 588	31 000	25 238	Nov 2010	26	
4 153	31 000	25 500	Dec 2008	65	24%
6 143	30 300	18 103	Nov 2006	42	
5 216	30 200	29 278	Jun 2007	47	
9 137	29 300	10 137	Dec 2005	28	
5 412	29 000	12 497	Jun 2007	40	
3 640	28 400	23 000	Dec 2008	78	13%
7 800	28 000	6 670	Aug 2004	26	
2 104	26 500	12 350	Aug 2004	103	
4 912	26 500	21 604	Mar 2007	42	
3 633	26 400	26 000	Dec 2008	71	16%
6 833	26 000	24 193	Jun 2007	38	
2 033	25 000	17 008	Nov 2006	93	22%

## SCHEDULE OF PROPERTIES (CONTINUED)

	<b>Property name</b>	<b>Address</b>	<b>Province</b>	<b>Sector</b>
73	Cranberry Street	Cranberry Street Laser Park	Gauteng	Industrial
74	86 Tsessebe Crescent	86 Tsessebe Crescent Corporate Park Midrand	Gauteng	Industrial
75	Richmond Forum Richmond	Cnr Cedar and Napier Roads Richmond	Gauteng	Commercial
76	5 - 7 Ayshire Avenue Longmeadow	7 Ayshire Avenue Longmeadow	Gauteng	Industrial
77	Milkyway Road	Milkyway Road Crown Mines	Gauteng	Industrial
78	Le Roux and West Street Allandale	Cnr Le Roux and West Streets Midrand	Gauteng	Industrial
79	10 Drakensberg Drive Longmeadow	10 Drakensberg Drive Longmeadow	Gauteng	Industrial
80	Koornhof Road	Koornhof Road Meadowdale	Gauteng	Industrial
81	5 Bertie Avenue Epping 2	5 Bertie Avenue Epping 2	Western Cape	Industrial
82	Houer Road	Houer Road City Deep	Gauteng	Industrial
83	1257 South Road Centurion	1257 South Road Centurion	Gauteng	Commercial
84	Redlands Office Park	George Macfarlane Avenue Wembly	KwaZulu-Natal	Commercial
85	35 Impala Road Chislehurst	35 Impala Road Chislehurst Sandton	Gauteng	Commercial
86	Megawatt Road	Megawatt Road Spartan	Gauteng	Industrial
87	Albert Amon Road	Albert Amon Road Meadowdale	Gauteng	Industrial
88	Cascades Office Park Pietermaritzburg	Cascades Street Pietermaritzburg	KwaZulu-Natal	Commercial
89	35 Reedbuck Crescent	35 Reedbuck Crescent Corporate Park Midrand	Gauteng	Industrial
90	Moore's Rowland House Durban	245 North Ridge Road Morningside	KwaZulu-Natal	Commercial
91	Rutland Mews	30 Main Street Eastleigh Edenvale	Gauteng	Industrial
92	Kingfisher Crescent Meyersdal	Kingfisher Crescent Meyersdal	Gauteng	Commercial
93	368 Sifon Street Robertville	368 Sifon Street Robertville	Gauteng	Industrial
94	Bofors Circle Park Epping	Bofors Circle Park Epping	Western Cape	Industrial
95	Lees Street Wynberg	Lees Street Wynberg	Gauteng	Industrial
96	108 Roan Crescent	108 Roan Crescent Corporate Park Midrand	Gauteng	Industrial

GLA (m <sup>2</sup> )	Valuation (R'000)	Purchase price (R'000)	Effective date of acquisition	Rental per m <sup>2</sup> (R)	Vacancy
5 641	23 400	18 856	Jun 2007	42	
6 362	23 100	27 661	Jun 2007	41	29%
4 250	23 000	15 000	Dec 2008	65	74%
3 710	22 800	21 538	Feb 2010	46	
3 865	21 500	19 359	Jun 2007	43	
4 998	20 200	11 150	Oct 1996	42	20%
2 999	20 150	18 196	Feb 2010	49	
3 027	19 100	16 511	Jun 2007	41	
5 500	18 700	15 000	Nov 2010	30	
5 584	18 100	14 300	Oct 2007	35	
1 805	18 000	12 900	Dec 2008	82	
2 326	17 900	18 900	Dec 2008	68	18%
1 399	17 800	10 350	Dec 2008	88	
2 710	17 700	14 243	Jun 2007	50	
4 064	16 400	7 628	Mar 2007	42	
1 561	16 000	6 517	Aug 2004	72	
3 202	14 500	8 079	Nov 2006	40	
2 342	14 300	16 800	Dec 2008	93	87%
4 405	14 200	11 648	Nov 2006	38	
1 445	12 900	12 200	Dec 2008	85	
4 550	12 500	12 300	Dec 2008	–	100%
2 828	12 300	12 226	Jan 1996	40	
4 105	11 900	2 382	Aug 1984	25	
2 683	11 500	5 920	Nov 2006	38	

## SCHEDULE OF PROPERTIES (CONTINUED)

	<b>Property name</b>	<b>Address</b>	<b>Province</b>	<b>Sector</b>
97	112 Roan Crescent	112 Roan Crescent Corporate Park Midrand	Gauteng	Industrial
98	Director Road Spartan	Director Road Spartan	Gauteng	Industrial
99	75 Kyalami Boulevard	75 Kyalami Boulevard Kyalami Park	Gauteng	Industrial
100	109 Roan Crescent	109 Roan Crescent Corporate Park North Midrand	Gauteng	Industrial
101	City Deep Mini Units	Cnr Heidelberg and Vickers Roads City Deep	Gauteng	Industrial
102	3 Capital Hill Business Park	3 Capital Hill Business Park Midrand	Gauteng	Industrial
103	9 Reedbuck Crescent	9 Reedbuck Crescent Corporate Park North Midrand	Gauteng	Industrial
104	71 Tsessebe Crescent	71 Tsessebe Crescent Corporate Park North Midrand	Gauteng	Industrial
105	York Road Wynberg Cape Town	York Road Wynberg	Western Cape	Industrial
106	50 Tsessebe Crescent	50 Tsessebe Crescent Corporate Park North Midrand	Gauteng	Industrial
107	39 Loper Street Spartan	39 Loper Street Spartan Ext 2 Aeroport	Gauteng	Industrial
108	62 Gazelle Avenue	62 Gazelle Avenue Corporate Park Midrand	Gauteng	Industrial
<b>Sub-total</b>				
<b>Developments</b>				
109	Montague Gardens**	Cnr Platteklouf and Koeberg Road Milnerton Cape Town	Western Cape	Industrial
110	N1 Business Park*	N1 Highway Midrand	Gauteng	Industrial
<b>Sub-total</b>				
<b>Total</b>				

\*Capital has a 20% interest in the development

\*\*Capital has a 25% interest in the development

GLA (m <sup>2</sup> )	Valuation (R'000)	Purchase price (R'000)	Effective date of acquisition	Rental per m <sup>2</sup> (R)	Vacancy
2 177	10 700	5 925	Nov 2006	40	
1 600	8 400	8 600	Jun 2007	46	
1 665	8 100	6 784	Nov 2006	49	
1 723	8 000	6 845	Nov 2006	40	
1 350	8 000	3 356	Nov 2006	49	
1 825	7 650	3 898	Nov 2006	43	
1 950	7 500	4 007	Nov 2006	40	37%
1 809	7 200	5 945	Nov 2006	40	
2 514	6 300	10 500	Dec 2008	35	
1 849	6 100	6 765	Nov 2006	–	100%
953	5 800	1 944	Nov 2006	53	
1 318	5 700	4 606	Nov 2006	46	
<b>914 426</b>	<b>6 012 540</b>	<b>3 835 499</b>			
	130 958	97 000	Aug 2009		
	34 913	29 590	Aug 2006		
	<b>165 871</b>	<b>126 590</b>			
<b>914 426</b>	<b>6 178 411</b>	<b>3 962 089</b>			

# BOARD CHARTER

## **FUNCTIONS OF THE BOARD**

The board acknowledges that they:

- regard corporate governance as vitally important to the success of the business;
- are responsible to all stakeholders for the group achieving the highest standards of business conduct;
- are unreservedly committed to applying the principles necessary to ensure that good corporate governance, as set out in the King II report, is practiced in all of the Group's business dealings; and
- are expected to act with due regard to their fiduciary duties and responsibilities in a professional manner, and to uphold the Group's core values.

## **RESPONSIBILITIES OF THE BOARD**

Although certain responsibilities are delegated to committees or management executives, the board acknowledges that it is not discharged from its obligations in regards to these matters.

The board acknowledges its responsibilities for:

- the adoption of strategic plans and ensuring that these plans are carried out by management;
- the monitoring of the operational performance of the business against predetermined budgets;
- the monitoring of the performance of management at both operational and executive level;
- ensuring that the group complies with all laws, regulations and codes of business practice;
- ensuring a clear division of responsibilities at board level to ensure a balance of power and authority in terms of group policies; and
- timeous, relevant and meaningful reporting to all stakeholders.

# CORPORATE GOVERNANCE REVIEW

## **INTRODUCTION**

The board of directors endorses the Code of Corporate Practices and Conduct as set out in the King II report and confirms that the Group is compliant with the provisions thereof in all material respects, except where specifically discussed in this report. The board has been addressed by independent consultants to ensure that all directors are fully conversant with best practice and current thinking with regard to corporate governance.

## **COMPOSITION OF THE BOARD OF DIRECTORS**

The board is comprised of five executive directors and six independent non-executive directors. Board appointments are made in terms of a formal and transparent policy on nominations and appointments.

There are no fixed term contracts for executive directors and the notice period for termination or resignation is one calendar month. There is no restraint of trade period for executive directors.

## **ROLE OF THE DIRECTORS**

Ultimate control of the Fund rests with the board of directors while the executive management is responsible for the proper management of the Fund. To achieve this, the board is responsible for establishing the objectives of the Fund and setting a philosophy for investments, performance and ethical standards. Although quarterly board meetings are arranged every year, additional meetings are called should circumstances require it. Six board meetings were called during the 2010 financial year.

## **INDEPENDENCE OF THE DIRECTORS**

The board of directors' independence from the executive management team is ensured by the following:

- separation of the roles of chairman and managing director, with the chairman being independent;
- the board being dominated by independent non-executive directors;
- the audit and risk and nomination committees having a majority of independent directors;
- non-executive directors not holding service contracts;
- all directors having access to the advice and services of the company secretary; and
- with prior agreement from the chairman, all directors are entitled to seek independent professional advice concerning the affairs of the Fund at the Fund's expense.

The audit and risk, nomination and investment committees are chaired by independent non-executive directors.

## **AUDIT AND RISK COMMITTEE**

The audit and risk committee evaluates the group's exposure and response to significant risks, including sustainability issues.

The committee's primary objective is to provide the board with additional assurance regarding the efficiency of the operations and reliability of the financial information, and to assist the board in discharging its duties in regard to these matters.

The committee reviews audit plans for external audits and the outcome of the work performed in executing these plans. They further ensure that items identified for action are followed up. The committee recommends the appointment of external auditors, the level of fees payable and the level of non-audit services. The external auditors report annually to the audit committee to confirm that they are and have remained independent from the group during the year. The audit committee is satisfied that the auditors have remained independent. The audit committee is further satisfied that the financial director is sufficiently competent.

It is the function of the committee to review and make recommendations to the board regarding interim financial results and the annual financial statements prior to approval by the board.

The audit committee comprises three non-executive directors, all of whom are independent. The managing director, financial director, external auditors and company secretary attend all meetings of the committee as invitees. Committee members have unlimited access to all information, documents and explanations required in the discharge of their duties, as do the external auditors.

## **INVESTMENT COMMITTEE**

All acquisitions and sales of investments and capital expenditure are considered by the investment committee.

The investment committee consists of two executive directors and two independent non-executive directors. All members of this committee have extensive experience and technical expertise in the commercial, retail and industrial property industry.

## **INTERNAL FINANCIAL AND OPERATING CONTROLS**

A framework of financial reporting, internal and operating controls has been established by the board to ensure reasonable assurance as to accurate and timeous reporting of business information, safeguarding of Group assets, compliance with statutory laws and regulations, and general operation.

The board is satisfied that the internal controls are effective. In addition, the audit committee continually examines the appropriateness of utilising independent internal auditors to periodically review activities of the Group and service providers.

## **ETHICS PERFORMANCE**

The board of directors forms the core of the values and ethics subscribed to by the Fund through its various bodies and committees. These values and ethics are sustained by the directors' standing and reputation in the business community and their belief in free and fair dealings in utmost good faith and respect for the law and regulations.

## **DEALING IN SECURITIES BY THE DIRECTORS**

Dealing in the Fund's securities by directors and Fund officials is regulated and monitored as required by the Listings Requirements of the JSE Limited. In addition, Capital maintains a closed period from the end of a financial period to the date of publication of the financial results.

## **COMMUNICATIONS WITH STAKEHOLDERS AND UNITHOLDERS**

Capital is committed to ensuring timeous, effective and transparent communication with unitholders and other stakeholders through annual and interim financial reports, presentations to analysts, press releases, etc.

# PROPERTY FUND MANAGERS LIMITED DIRECTORS' REPORT

<b>NATURE OF BUSINESS</b>	The company continued with its business as the manager of the Fund in terms of the Collective Investment Schemes Control Act, 45 of 2002.
<b>GENERAL REVIEW</b>	The results for the year are reflected in the accompanying annual financial statements.
<b>SHARE CAPITAL</b>	Details of the authorised and issued share capital of the company appear in note 5 to the financial statements.
<b>DIRECTORS</b>	The directors of the company appear on pages 4 to 5.
<b>REGISTERED OFFICE</b>	4th Floor Rivonia Village Rivonia Boulevard Rivonia 2191 PO Box 2555 Rivonia 2128
<b>AUDITORS</b>	PKF (Jhb) Inc. was appointed as the auditor in terms of the Companies Act of South Africa.

# INDEPENDENT AUDITOR'S REPORT

## **TO THE SHAREHOLDER OF PROPERTY FUND MANAGERS LIMITED**

We have audited the annual financial statements of Property Fund Managers Limited ("the Company"), which comprise the statement of financial position at 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' Report as set out on pages 62 and 64 to 70.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **OPINION**

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PKF (Jhb) Inc.

## **Per P Badrick**

*Registered Auditors*

*Chartered Accountant (SA)*

*Registration number: 1994/001166/211*

Johannesburg

2 February 2011

## STATEMENT OF FINANCIAL POSITION

*as at 31 December 2010*

	Note	2010 R'000	2009 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	2	-	-
<b>Current assets</b>			
Trade and other receivables	3	7 119	5 679
Cash and cash equivalents	4	2	1
<b>Total assets</b>		<b>7 119</b>	<b>5 679</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	5	100	100
Share premium	5	900	900
Non-distributable reserves	6	632	632
Retained earnings		2 210	2 210
<b>Non-current liabilities</b>			
Deferred tax	7	-	-
<b>Current liabilities</b>			
Trade and other payables	8	3 277	1 837
Income tax payable		-	9
<b>Total equity and liabilities</b>		<b>7 119</b>	<b>5 679</b>

## STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 December 2010*

	Note	2010 R'000	2009 R'000
<b>Revenue</b>		<b>33 248</b>	26 518
<b>Operating expenses</b>		<b>(33 248)</b>	(26 587)
Operating loss		-	(69)
Profit on sale of investments		-	116
Finance income - interest received		-	69
<b>Profit before taxation</b>	9	-	116
Income tax expense	10	-	51
<b>Profit after taxation</b>		-	167
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>167</b>

## STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2010*

	Share capital R'000	Share premium R'000	Non- distributable reserves R'000	Retained income R'000	Total R'000
<b>Balance at 31 December 2008</b>	100	900	465	2 210	3 675
Total comprehensive income for the year				167	167
Transfer to non-distributable reserves			167	(167)	-
<b>Balance at 31 December 2009</b>	100	900	632	2 210	3 842
Total comprehensive income for the year				-	-
<b>Balance at 31 December 2010</b>	<b>100</b>	<b>900</b>	<b>632</b>	<b>2 210</b>	<b>3 842</b>

## STATEMENT OF CASH FLOW

*for the year ended 31 December 2010*

	Note	2010 R'000	2009 R'000
<b>Operating activities</b>			
Profit before taxation		-	116
Adjusted for:			
Profit on sale of investments		-	(116)
Finance income – interest received		-	(69)
<b>Cash outflow from operating activities</b>		-	(69)
(Increase)/decrease in trade and other receivables		<b>(1 439)</b>	2 051
Increase/(decrease) in accounts payable		<b>1 449</b>	(3 032)
<b>Cash generated by/(utilised in) operations</b>		<b>10</b>	(1 050)
Income tax paid	10.1	<b>(9)</b>	(74)
Interest received		-	69
<b>Cash effects of operating activities</b>		<b>1</b>	(1 055)
<b>Investing activities</b>			
Proceeds from sale of investments		-	916
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1</b>	(139)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1</b>	140
<b>Cash and cash equivalents at the end of the year</b>		<b>2</b>	<b>1</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2010

## 1 ACCOUNTING POLICIES

### 1.1 Basis of preparation

The financial statements have been prepared on the historical cost basis modified for financial assets and financial liabilities measured at fair value. The financial statements have been prepared on the going concern basis. They are presented in rand and all values are rounded to the nearest thousand (R'000) except where otherwise indicated.

### 1.2 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of these standards as adopted by the International Accounting Standards Board, the AC 500 standards, the requirements of the South African Companies Act, the Collective Investment Schemes Control Act and the Listings Requirements of the JSE Limited.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, judgements and assumptions that affect reported amounts. It also requires management to exercise its judgement in the company's process of applying the accounting policies. Actual results may vary from these estimates. The areas involving a higher degree of judgement or complexities or areas where assumptions or estimates are significant are disclosed in note 14. The estimates and underlying assumptions are reviewed on an ongoing basis.

The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies have remained unchanged from those applied in the prior year.

### 1.3 Impairment

#### Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss in respect of an available for sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics.

All impairment losses are recognised in profit and loss.

An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

All receivables past due are fully impaired. Amounts are considered past due if they are in excess of payment terms.

No allowance for doubtful debts is recognised.

The recovery of amounts previously written off are recorded in profit and loss.

### 1.4 Non-distributable reserves

All realised gains/losses arising on the fair value adjustments on investments classified as fair value through profit and loss and all realised profits/losses on the sale of such investments are transferred to non-distributable reserves and are not available for distribution.

### 1.5 Financial instruments

The Company's financial instruments consist mainly of investments, trade and other receivables, trade and other payables, cash and borrowings.

Financial instruments, other than financial instruments classified as fair value through profit and loss, are initially measured at fair value including transaction costs.

Subsequent to initial recognition these instruments are measured as set out below:

Cash and cash equivalents	– Measured at fair value.
Investments	– Carried at fair value, being the quoted bid price at the reporting date, through profit and loss.
Trade and other receivables	– Stated at amortised cost using the effective interest rate method less accumulated impairment losses.
Trade and other payables	– Stated at amortised cost using the effective interest rate method.
Related party loans receivable	– Stated at amortised cost using the effective interest rate method less accumulated impairment losses.
Related party loans payable	– Stated at amortised cost using the effective interest rate method.
Financial liabilities	– Non-derivative financial liabilities, not at fair value through profit and loss, are recognised at amortised cost using the effective interest rate method.

For all financial instruments carried at amortised cost, where the financial effect of the time value of money is not considered to be material, discounting is not applied as the fair values of these instruments approximate their carrying values.

## 1.6 Derecognition

### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the contractual rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset, or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### Offset

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

## 1.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current account balances and funds held on call with banks.

## 1.8 Revenue

Revenue represents asset management fees, unit creation fees and distributions received.

The asset management fee represents management fees for the asset management of Capital Property Fund, net of VAT and are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Unit creation fees are recognised on an accrual basis in accordance with the substance of the relevant agreement.

Distributions are accrued for on a daily basis using the time apportionment method.

Interest received is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate which exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s carrying value.

## 1.9 Income tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss 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 the reporting date, and any adjustment to tax payable in respect of previous years.

To the extent that the current tax is due to the tax authorities at year end, it is recognised as a current liability.

Deferred tax is provided by subsidiaries using the comprehensive 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. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit/loss, and 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 reporting date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	2010 R'000	2009 R'000
<b>2 LISTED INVESTMENTS</b>		
Nil (2009 : Nil) units in Capital Property Fund at fair value	-	-
<b>Schedule of movement</b>		
Carrying value at the beginning of the year	-	799
Disposals	-	(799)
<b>Carrying value at the end of the year</b>	<b>-</b>	<b>-</b>
<b>3 TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	3 443	2 865
Loan to Resilient	3 674	2 813
	<b>7 117</b>	<b>5 678</b>
The loan to Resilient is interest free and is payable on demand.		
<b>4 CASH AND CASH EQUIVALENTS</b>		
Current account	2	1
	<b>2</b>	<b>1</b>
<b>5 SHARE CAPITAL</b>		
<i>Authorised and issued</i>		
100 000 ordinary shares of R1 each	100	100
Share premium	900	900
<b>6 NON-DISTRIBUTABLE RESERVES</b>		
Balance at the beginning of the year	632	465
Investments	-	167
<b>Balance at the end of the year</b>	<b>632</b>	<b>632</b>
<b>7 DEFERRED TAX</b>		
Balance at the beginning of the year	-	132
Charged to the statement of comprehensive income during the year	-	(132)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>
<b>8 TRADE AND OTHER PAYABLES</b>		
Accruals	42	186
Trade payables	3 235	1 642
	<b>3 277</b>	<b>1 828</b>
<b>9 PROFIT BEFORE TAXATION</b>		
Profit before taxation is stated after:		
Distributions received	-	(69)
Asset management fee received	(33 248)	(26 223)
Unit creation fee	-	(295)
Asset management fee paid and administration expenses	33 206	26 410
Auditor's remuneration – Audit services	42	40
Auditor's remuneration – Other services	5	-

	2010	2009
	R'000	R'000
<b>10 INCOME TAX EXPENSE</b>		
South African normal tax		
Current year		
– Income tax	–	(1)
– Capital gains tax	–	82
– Deferred tax	–	(132)
	–	(51)
<i>Reconciliation of tax rate</i>	%	%
Company tax rate	28,00%	28,00%
– Deferred tax differential	–	–
– Capital gains tax differential	–	(72,00%)
Effective tax rate	28,00%	(44,00%)
<b>10.1 Income tax paid</b>		
Balance due at the beginning of the year	9	1
Tax charge in statement of comprehensive income	–	82
Balance due at the end of the year	–	(9)
Tax paid	9	74
<b>11 FINANCIAL INSTRUMENTS</b>		
Exposure to credit and liquidity risk arises in the normal course of business.		
<b>11.1 Credit risk</b>		
Trade receivables consist of the asset management and unit creation fees from Capital Property Fund and the loan to Resilient Property Income Fund Limited and the credit risk relating thereto is considered minimal. At year end management believed there was no material credit risk exposure and no amounts past due.		
Reputable financial institutions are used for cash handling and investing purposes.		
<b>11.2 Liquidity risk</b>		
Cash flows are continuously monitored to ensure the company is able to meet its funding requirements. All financial liabilities comprising trade and other payables, will be settled within 12 months and will not incur interest.		
<b>11.3 Fair values</b>		
The fair values of all financial instruments classified as designated as at fair value through profit or loss are substantially identical to carrying amounts reflected in the statement of financial position.		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)  
for the year ended 31 December 2010

	2010	2009
	R'000	R'000
<b>12 RELATED PARTY TRANSACTIONS</b>		
<b>12.1 Identity of related parties</b>		
Property Fund Managers Limited ("PFM") is the management company of Capital Property Fund in terms of the Collective Investment Schemes Control Act.		
The holding company of PFM is Resilient Property Income Fund Limited, which effectively holds 100% of PFM's ordinary shares. An asset management agreement is in place between PFM and Resilient Properties (Proprietary) Limited ("Resilient Properties"), which is 100% owned by Resilient.		
<b>12.2 Material related party transactions</b>		
<i>Capital Property Fund</i>		
Distributions received	–	69
Asset management fee received	(33 248)	(26 223)
Unit creation fee received	–	(295)
<i>Directors</i>		
Directors' emoluments (see note 13)	932	810
<i>Asset Management Agreement</i>		
Asset management fee to Resilient Properties	32 183	–
Asset management fee to Fortress Asset Managers (Proprietary) Limited	–	25 541
<b>13 DIRECTORS' REMUNERATION</b>		
Fees paid to directors during the year ended 31 December 2010 were as follows:		
<b>Non-executive (for services as directors)</b>		
WC Ross	150	135
RA Chute	190	170
JJG da Costa	150	135
PT Phili	155	135
BL Stuhler	55	100
TD Vilakazi	155	135
UJ van der Walt	77	–
	932	810

The management of Capital Property Fund by PFM has been outsourced to Resilient Properties, a wholly owned subsidiary of Resilient, and therefore the executive directors are not remunerated by PFM.

**14 ACCOUNTING ESTIMATES AND JUDGEMENTS**

There were no areas where significant accounting estimates and judgements have been made in the preparation of these financial statements.

**Additional information required in terms of the Collective Investment Schemes Control Act of 2002**

In terms of the Collective Investment Schemes Control Act the company is required to have a minimum capital of R1 492 500 (2009: R1 492 500). At 31 December 2010 the capital balance was R2 351 857 (2009: R2 351 857).

# ADMINISTRATION

## **ASSET MANAGER**

Property Fund Managers Limited  
4th Floor Rivonia Village  
Rivonia Boulevard  
Rivonia 2191  
PO Box 2555 Rivonia 2128

## **AUDITOR**

PKF (Jhb) Inc.  
42 Wierda Road West  
Wierda Valley  
Sandton 2196  
Private Bag X10046 Sandton 2146

## **BANKER**

The Standard Bank of South Africa Limited  
Registration number: 1967/00735/06  
Corporate and Investment Banking  
7th Floor 3 Simmonds Street  
Johannesburg 2001  
PO Box 61029 Marshalltown 2107

## **COMPANY SECRETARY**

Rual Bornman  
4th Floor Rivonia Village  
Rivonia Boulevard  
Rivonia 2191  
PO Box 2555 Rivonia 2128

## **SPONSOR**

Java Capital (Proprietary) Limited  
2 Arnold Road  
Rosebank 2196  
PO Box 2087 Parklands 2121

## **TRUSTEE**

Absa Bank Limited  
Commercial Property Finance  
18th Floor 11 Diagonal Street  
Johannesburg 2001  
PO Box 42010 Fordsburg 2033

## **TRANSFER SECRETARIES**

Link Market Services South Africa (Proprietary) Limited  
16th Floor 11 Diagonal Street  
Johannesburg 2001  
PO Box 4844 Johannesburg 2000

# UNITHOLDERS' DIARY

## DECEMBER 2010

Financial year end	Friday, 31 December 2010
Announcement of 2010 results and declaration of final distribution (on SENS)	Thursday, 03 February 2011
Last day to trade units inclusive of distribution ( <i>cum</i> distribution)	Friday, 18 February 2011
Units trade exclusive of distribution ( <i>ex</i> distribution) from	Monday, 21 February 2011
Last day to update register for distribution (record date)	Friday, 25 February 2011
Payment of 2010 final distribution	Monday, 28 February 2011
Posting of 2010 annual report	Thursday, 31 March 2011

## JUNE 2011

Interim period ends	Thursday, 30 June 2011
Announcement of 2011 interim report and declaration of interim distribution (on SENS)	Wednesday, 03 August 2011
Payment of 2011 interim distribution	Monday, 29 August 2011

# FACT SHEET

<b>FUND NAME</b>	Capital Property Fund	
<b>CONTACT</b>	Tel: +27 (0) 11 612 6870 Fax: +27 (0) 11 612 6869	
<b>REGISTERED ADDRESS</b>	4th Floor Rivonia Village Rivonia Boulevard Rivonia 2191 PO Box 2555 Rivonia 2128	
<b>YEAR-END</b>	31 December	
<b>CHAIRMAN OF THE BOARD</b>	Willy Ross	
<b>BOARD OF DIRECTORS</b>	WC Ross (chairman), AE Teixeira (managing director), AA Bornman, RA Chute, JJG da Costa, D de Beer, A de Lange, PT Phili, UJ van der Walt, TD Vilakazi, TL Visser	
	Independent non-executive	6
	Executive	5
		11
<b>MANAGING DIRECTOR</b>	Andrew Teixeira	
<b>COMPANY SECRETARY</b>	Rual Bornman	
<b>CORPORATE ADVISORS</b>	Java Capital	
<b>EXTERNAL AUDITORS</b>	PKF (Jhb) Inc.	
<b>UNITS IN ISSUE</b>	717 578 059	
<b>GEARING RATIO</b>	18,6%	
<b>INVESTMENT PORTFOLIO</b>	Direct property: R6 178,4 million Listed equity: R944,4 million	
<b>UNIT PRICE (CENT)</b>	<b>2010 year</b>	
	High	885 cpu
	Low	670 cpu
	Closing	821 cpu
<b>VOLUME TRADED</b>	207,4 million units	
<b>VALUE TRADED</b>	R1 542,3 million	
<b>DISTRIBUTIONS</b>	Interim	28,36 cents
	Final	31,78 cents
		60,14 cents
<b>NUMBER OF INVESTMENT PROPERTIES</b>	109 (2009: 99)	
<b>DISTRIBUTION CALENDAR (FINAL DISTRIBUTION FOR THE 2010 FINANCIAL YEAR)</b>		
Last day to trade <i>cum</i> distribution	18 February 2011	
Record date	25 February 2011	
Distribution payment	28 February 2011	



CAPITAL PROPERTY FUND

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Rivonia Boulevard Rivonia 2191  
PO Box 2555 Rivonia 2128  
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+27 (0) 11 612 6899