

# FOUNTAINHEAD

Property Trust ■■■■■■■■

ANNUAL REPORT 2007



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## Profile, Investment Policy and Financial Highlights

### Profile

Fountainhead Property Trust (the "Trust") is a property unit trust established in 1983 in terms of the Unit Trusts Control Act, 1981, subsequently, in March 2003, replaced by the Collective Investment Schemes Control Act, 2002. The Trust is a closed end fund and is obliged to distribute all net income earned to its unitholders. As a result of its distribution obligations, the Trust is not taxed on its income. The Registrar of Collective Investment Schemes regulates the Trust insofar as its compliance with the Collective Investment Schemes Control Act is concerned and the JSE Limited (JSE) regulates its trading regulations.

The Trust's portfolio of investments in retail, commercial and industrial properties, at 30 September 2007, was capitalised on the JSE at R6.7 billion.

### Objective

The Trust is managed by Fountainhead Property Trust Management Limited whose investment policy is to create wealth for the Trust's unitholders by consistently generating a total rate of return in excess of inflation. This is to be achieved by optimising net rental growth and thereby maximising the appreciation in the value of the underlying properties in the portfolio.

### Financial highlights

	2007	2006
<b>Distributions</b>		
Cents per unit	42.92	39.00
Growth	10.1%	11.4%
<b>Average vacancy factor (based on lettable space)</b>	6%	8%
<b>Property portfolio valuations (Rm)</b>	6 793	5 492
<b>Funding capacity (Rm)</b>		
Maximum borrowings in terms of trust deed	2 038	1 648
Approved facility	1 000	1 000
Unutilised facility after capital commitments	321	360
<b>Fountainhead Property Trust units (cents per unit)</b>		
Net asset value	634	522
Listed market price at year-end	675	516
Increase on previous year	30.8%	2.8%
Premium/(Discount) to net asset value	6.5%	(1.2%)
FTSE/JSE Property Trust Index at year-end	413.0	317.5
Increase on previous year	30.1%	2.9%

# Fountainhead Property Trust

## Directorate and Administration

Directors of Fountainhead Property Trust Management Limited

**W M Kirchmann R.Q.S., M.A.Q.S. #**

Managing Director of Northprop (Pty) Limited. Forty-eight years' experience in property.

**J D Rainier BCom LLB (Managing Director)**

Twenty-seven years' experience in property management.

**V A Christian BCom CTA CA (SA) #**

Former partner at Ernst & Young and non-executive director of SA Post Office Limited and KVV Limited.

**S Shaw-Taylor CA (SA)**

Managing Director of Standard Bank Properties. Twenty years' experience in property.

# *audit committee*

**Administrators**

Broll Property Group (Proprietary) Limited  
2nd Floor  
Broll House  
27 Fricker Road  
Illovo 2196  
Johannesburg

**Transfer Secretaries**

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

**Trustees**

ABSA Bank Limited  
2nd Floor, Block E  
Flora Office Park  
Cnr. Ontdekkers and Conrad Roads  
Florida  
1709

**Auditors**

KPMG Inc.

**Bankers**

The Standard Bank of South Africa Limited

**Sponsor**

The Standard Bank of South Africa Limited

**JSE code**

FPT

**ISIN**

ZAE000097416

**Website**

[www.fountainheadproperty.co.za](http://www.fountainheadproperty.co.za)

**E-mail**

[fountainhead@standardbank.co.za](mailto:fountainhead@standardbank.co.za)

## Manager's Report

### Change in name and control of the Manager

With effect from 1 June 2007 the name of your Trust was changed from Allan Gray Property Trust to Fountainhead Property Trust. This was as a result of Allan Gray Limited selling its property business, including its controlling shareholding in the Manager, to its long-term partner, The Standard Bank of South Africa Limited. The name of the Manager was likewise changed to Fountainhead Property Trust Management Limited.

Other than the name changes and resignation of the Allan Gray nominated board members, the operational management of your Trust remains in the same hands as before. The new controlling interest in the Manager by The Standard Bank we believe opens many new opportunities for Fountainhead Property Trust.

### The South African Economy

During the past year, on the back of higher inflation short-term interest rates have moved significantly higher, with the BA rate reaching 9,96 percent at the end of September and the prime rate reaching 13,5 percent up from 8,14 percent and 11,5 percent respectively a year ago. Long bond rates have, however, remained relatively flat over the same period (8,16 percent compared with 8,14 percent) supported by among other things a lack of supply, leading to a sharply inverted yield curve. Since September the prime rate has further increased to 14 percent.

It would appear that the monetary tightening is achieving its intention of bringing inflation back within the SA Reserve Bank's targets of 3 to 6 percent, which range many commentators anticipate to be reached during the first half of 2008. Indeed, motor car sales have declined strongly this year and there are signs that other areas of consumer spending are also slowing.

Management believes that growth prospects for the economy remain robust, albeit with a moderation in consumer demand brought on by credit tightening. Offsetting this to a large extent is strongly growing fixed investment spending. Corporate credit demand continues to strengthen too. The leading indicator meanwhile is still at elevated levels. GDP growth remains at respectable levels, with consensus showing GDP growth remaining at levels marginally under 5 percent.

The only area of concern remains the high level of the current account deficit, on which we have commented previously. Growth in total imports continues to exceed that of exports. While manufacturing volume continues to grow at a rate well above its long-term norm, capacity utilisation is at long-term highs, showing the need for further investment in capacity. While rand prices of commodities and precious metals are high a meaningful increase in volumes is necessary to improve the export side of the equation.

### The South African Property Market

Rode's Report (2007:3) shows the following percentage increases in nominal market rentals over the past year, continuing the marked improvement in the physical property market:

Prime decentralised offices		Prime industrial	
Sandton CBD	31	Central Witwatersrand	17
Brooklyn/Waterkloof	20	East Rand	27
La Lucia Ridge	8	Cape Peninsula	17
Tyger Valley	14	Durban Metro	19
		Pretoria Metro	28

Over this period the BER building cost index rose by 12 percent.

Despite the ongoing rise in interest rates, Rode reports a continuing trend of declining capitalisation rates albeit marginally so in most cases. New contractual lease escalations remain in the range of 8 to 9 percent.

Vacancy rates in the office market have continued to decline, with Sapoa reporting decreased national decentralised office vacancies from the previous quarter. This positive trend is also evident in the industrial market. All the major decentralised office nodes reportedly have minimal vacancies in A and A+ grades, with what vacancies there are concentrated in lesser quality buildings, although even these have generally declined significantly from the levels of a year ago.

The change in the quantum of non-residential buildings to June 2007 as reported by Rode (based on data from Stats SA) is as follows (m<sup>2</sup>):

	Offices	Shopping	Industrial		
<b>12 months to June 2007</b>					
(% change on a year earlier)					
Completed	7.8	-9.9	61.8		
Plans passed	50.1	-4.6	9.3		
<b>6 months to June 2007</b>					
(% change on a year earlier)					
Completed	124.4	-27.7	82.8		
Plans passed	19.9	6.3	4.0		
		<b>Other</b>	<b>Total</b>		
<b>12 months to June 2007</b>					
(% change on a year earlier)					
Completed		4.2	21.9		
Plans passed		18.7	12.8		
<b>6 months to June 2007</b>					
(% change on a year earlier)					
Completed		23.1	38.4		
Plans passed		12.6	8.3		

Please note that not all buildings for which plans are passed are built.

The table indicates a substantial increase in office and industrial building completions in the first half of 2007 and a decline in shopping space coming on to the market. It is, however, noteworthy that the level of plans being passed is significantly less than those being completed. Interestingly, given this increase in office stock coming on to the market, vacancies remain constrained, indicating the growth in demand in this market. Rode reports a take-up of prime office space during the last year to June 2007 of some 454 000 m<sup>2</sup> of which some 360 000 m<sup>2</sup> occurred in the decentralised Johannesburg nodes.

Currently mean market rentals in the largest decentralised nodes are still 30 to 40 percent less than those being asked for on new developments which, combined with the low level of vacancies, bodes very well for further significant increases in market rentals.

Turning to the retail market, sales in July grew 4.2 percent in real terms over the previous year, a decline on the 9.6 percent growth of a year ago. Given the sustained increase in short-term interest rates this is understandable and while the prospect of further rate hikes is considered unlikely we would expect retail growth to further soften as consumer discretionary spending comes under further pressure.

#### Initiatives and market developments during 2007

We continued with our programme of selling buildings that have inferior prospects whilst the redevelopment of certain properties continued. For details we refer you to the "Property portfolio" section set out on page 14.

The Property Sector Transformation Charter has finally, on 5 October 2007, been gazetted.

#### Performance and financial results

Our purpose is the creation of long-term wealth for our unitholders. Over the last six years to September 2007 the total return per annum generated by Fountainhead Property Trust compared with inflation has been as follows:

(%)	2002	2003	2004	2005	2006	2007	6-year compound % pa
Fountainhead Property Trust	1.3	36.9	39.9	57.1	9.7	<b>39.0</b>	29.2
Inflation	11.2	3.7	1.3	4.4	5.3	<b>7.2</b>	5.5
Real return	-9.9	33.2	38.6	52.7	4.4	<b>31.8</b>	23.7

(Source: I-Net Bridge)

Total distributions for the year to 30 September 2007 were R427.502 million, equivalent to 42.92 cents per unit (2006: 39.00 cents). The total distribution comprised an interim distribution of 21.40 cents (2006: 19.30 cents) and a final distribution of 21.52 cents (2006: 19.70 cents) to be paid on 26 November 2007. This is a 10 percent increase for the year.

Fountainhead Property Trust participates in the IPD South Africa annual benchmark survey which measures the performance of its

underlying direct property portfolio against other listed funds. For 2006 Fountainhead Property Trust's total return was 53.9 percent compared with the benchmark of 33.8 percent. This was the second best performance out of 17 participants. In addition, it again won the award for the best listed office and industrial portfolios, based on total return over a three year period.

#### Vacancy levels

Vacancy levels in terms of rentable area at 30 September were as follows (percent):

Sector	2007	2006
Retail	6	8
Offices	2	5
Industrial	9	11
Other	-	-
Total	6	8

By area, vacancies were 7 percent at half-year. By value, the vacancies equated to 5 percent of potential rental income, an improvement on the 6 percent as at half-year. Further analysis reveals the following:

In the retail sector 75 percent of the vacancies were contained in The Boulders and The Brightwater Commons. Approximately half of this vacant area has been let for future occupation.

There were no significant vacancies in the office sector.

In the industrial sector, the ex-Degussa building in Midrand has been let, with rental having commenced as from October 2007. Negotiations are under way to let the ex-Nashua House building in Midrand as from 1 December 2007.

During the past year 10 919m<sup>2</sup> of new leases were signed in the office portfolio and 12 631m<sup>2</sup> of leases were renewed, a total of 21 percent of the rentable area of the portfolio. The leases were concluded at a cost of 6 percent of the gross value of R68 million.

During the past year 40 796m<sup>2</sup> of new leases were signed in the industrial portfolio and 29 819m<sup>2</sup> of leases were renewed, a total of 38 percent of the rentable area of the portfolio. The leases were concluded at a cost of 3 percent of the gross value of R102 million.

Leasing activity for the year was as follows:

	Retail		Offices		Industrial	
	Area (m <sup>2</sup> )	% of year-end area	Area (m <sup>2</sup> )	% of year-end area	Area (m <sup>2</sup> )	% of year-end area
Vacant at 30 September 2006	32 270	8	5 317	5	22 746	11
Sold	-	-	7 876	7	14 027	8
Vacated	26 547	6	16 089	14	48 428	26
New leases	33 205	8	10 919	10	40 796	22
Vacant at 30 September 2007	25 612	6	2 611	2	16 351	9
Renewals 2yr plus	60 282		7 347		23 120	
Renewals 1yr	3 912		5 284		6 699	

# Fountainhead Property Trust

## Manager's Report

### Property Portfolio

During the year, the following changes were made to the portfolio:

#### Sales

Properties with a carrying value of R36.5 million were sold. Proceeds from sales totalled R49.9 million as detailed below.

Property	Proceeds (Rm)	Carrying value (Rm)	Surplus %
377 Rivonia Boulevard	21 500	13 628	58
271 Oak Avenue	14 000	10 484	34
Fourways Haulage	10 000	8 083	24
Cyrus House	4 352	4 286	2
	49 852	36 481	37

### Capital projects

Significant capital projects and planned projects are:

#### Kenilworth Centre

Work has commenced on a R56 million project which includes an extension for a food court and a Game store of 5 000 square metres within the centre. The addition of a Game store will strengthen the retail mix in the centre.

#### Centurion Mall (75% share)

Work is nearing completion on the extension to the Mall, adjoining office blocks and the new parkade. The expected completion date is December 2007 and the project is expected to generate an initial return of 12 percent.

#### The Brightwater Commons

Heads of agreement have been signed with two anchor tenants, Woolworths and Virgin Active, who will occupy 6 183 square metres in phase three of the development. The vacancy will be reduced to 8 067 square metres or 20 percent of the gross lettable area. Management believes this will be the catalyst for the letting of the balance of phase three. It is anticipated that trading for the new anchor tenants will commence in the third quarter of 2008. A further R90 million is anticipated to complete this project.

#### Benmore Gardens Shopping Centre

The development is progressing well and completion date is anticipated to be September 2008. The major change to the centre will be a new Pick 'n Pay store, the relocation of Dischem and the introduction of a Woolworths Food store, Toyzone and Baby City. A further R25 million has been committed to create additional parking and retail space. Given the central location of this property and the pace of residential developments in the vicinity, management believes the alterations position the centre for superior earnings growth. Due to the better rentals being achieved than originally

anticipated, the incremental net yield on the total net capital outlay of R85 million is anticipated to be 11.6 percent.

#### Douglas Roberts Centre

The construction of the parking garage has been completed and the refurbishment of the office tower is progressing well, with completion due in May 2008. The R155 million project was approved on the back of a 10 year lease with Murray and Roberts which commenced on 1 October 2007. The initial rental is based on an 8.5 percent yield on R215 million with 7 percent per annum escalations. Until the capital commitment is fully taken up, an interim rental based on the spend to date is being paid.

### Valuation

The composition of the Trust's portfolio, as valued by the independent valuer, Rode and Associates CC, is as follows:

Sector	Value (Rm)	Cents/ unit	Forward EY (%)	% of portfolio	
				2007	2006
Retail	5 128	515	7.9%	75	76
Office blocks	824	83	9.3%	12	12
Industrial	592	59	8.5%	9	8
Specialised	249	25	9.4%	4	4
Total property	6 793	682	8.1%	100	100
Long-term borrowings	(487)	(49)			
Net current assets	9	1			
	6 315	634			

The net asset value per unit is 21.2 percent higher than that of last year, as a result of improved valuations. The market rating of the property portfolio in terms of the anticipated forward earnings yield has improved from 8.7 percent last year to 8.1 percent.

The portfolio is concentrated significantly in 14 properties making up 80 percent of the portfolio by value. The major properties are discussed below.

#### Retail portfolio

This portfolio consists of 410 473 m<sup>2</sup> of rentable area, of which 6 percent was vacant at year-end (8 percent last year). It is instructive to note that all our dominant regional centres serve the growing middle-income market and are thus well positioned, management believes, to benefit from the strength and increasing importance of this market segment.

The major components of this portfolio by value are (details are for 100 percent of property):

- Centurion Mall (a 75 percent undivided share) totalling 109 625 m<sup>2</sup> with 86 025 m<sup>2</sup> of retail space and 23 600 m<sup>2</sup> of offices, including

the Munpen and Die Anker office buildings adjoining the Mall. It is budgeted to contribute 22 percent of property earnings in the new financial year. The major tenants are Pebble Bed Modular Reactor, Pick 'n Pay, Woolworths, Edgars, Game, Dischem, Jet, Hi Fi Corporation and Furniture City. Many management services are being provided to the adjoining property occupied by Checkers Hyper to provide shoppers with a common shopping experience in the greater 121 647 m<sup>2</sup> node. Sales growth for the year to 30 September was 7 percent (18 percent last year).

- Westgate Shopping Centre (a 41 percent undivided share) with 102 589 m<sup>2</sup> of retail space. It is budgeted to contribute 9 percent of property earnings in the new financial year. The major tenants are Checkers Hyper, Woolworths, Edgars, Dion, Game, Stuttafords, Toys R Us, Ster Kinekor, Hi Fi Corporation and all the national fashion chains. Again during this year a number of changes were made to the tenancies to cater better for the changing demographics and shopper patterns being experienced. Sales growth for the year to 30 September was 3 percent (12 percent last year).
- Blue Route Mall with 48 304 m<sup>2</sup> of retail space. It is budgeted to contribute 8 percent of property earnings in the new financial year. The major tenants are Checkers Hyper, Woolworths, Mr Price, Boardmans and Edgars. Most major national fashion chains are represented in the centre as well. Provisional investigations have commenced to expand the space occupied by existing tenants and to introduce national tenants who wish to be in the centre but cannot be accommodated. Sales growth for the year to 30 September was 9 percent (8 percent last year).
- Kenilworth Centre with 43 383 m<sup>2</sup> of retail space. It is budgeted to contribute 6 percent of property earnings in the new financial year. The major tenants are Pick 'n Pay, Woolworths, Edgars, Virgin Active, Shoprite and all the major national fashion chains. Sales growth for the year to 30 September was 13 percent (14 percent last year). Work has commenced on major alterations to the Centre which are outlined in the section dealing with Capital Projects.
- N1 City Mall (a 58 percent undivided share) with 63 958 m<sup>2</sup> of retail space. It is budgeted to contribute 7 percent of property earnings in the new financial year. This family centre is anchored by the Checkers Hyper, Pick 'n Pay, Woolworths and Edgars. All national fashion tenants are also represented in the centre. Sales growth for the year to 30 September was 30 percent (7 percent last year). This exceptional sales growth is attributable to the recent extensions and refurbishment.
- The Boulders with a total of 48 268 m<sup>2</sup> of space. It is budgeted to contribute 6 percent of property earnings in the new financial

year. The major tenants are Pick 'n Pay, Game and Edgars, with all the other national chains having representation. Vacancies have reduced from 17% to 10% during the year. The remaining vacancy is situated on the lower level. Negotiations are under way to let part of this space. Sales growth to 30 September was 13 percent (25 percent last year).

- Bryanston Shopping Centre with 11 586 m<sup>2</sup> of retail space. It is budgeted to contribute 2 percent of property earnings in the new financial year. Major tenants in this neighbourhood centre are Checkers and a Woolworths Food Store. Preliminary investigations remain under way to provide certain national tenants with the expansion they require and to create additional parking.
- Benmore Gardens with 14 683 m<sup>2</sup> of retail and associated office space. It is budgeted to contribute 4 percent of property earnings in the new financial year. Pick 'n Pay anchors this neighbourhood centre. Work has commenced on major alterations to the centre which are outlined in the section dealing with Capital Projects above.
- Southgate Mall and Value Market (16 and 19 percent undivided shares respectively) with 70 939 m<sup>2</sup> and 18 885 m<sup>2</sup> respectively. They are budgeted to contribute 3 percent of property earnings in the new financial year. The major tenants are Pick 'n Pay, Woolworths, Checkers, Edgars, Jet, Ster Kinekor, Virgin Active, Dion and Sportsman's Warehouse. Southgate is well positioned to take advantage of the growing new middle class in South Africa. Sales growth for the year to 30 September was 5 percent (1 percent last year).
- The Brightwater Commons with 41 714 m<sup>2</sup> of space. It is budgeted to contribute 3 percent of property earnings in the new financial year and is commented on in the section dealing with Capital Projects.

For more comprehensive details of this portfolio see page 14.

#### **Commercial and industrial portfolio**

The total area of the commercial and industrial portfolio is 298 516 m<sup>2</sup> with average vacancy levels at year-end of 6 percent (9 percent last year). Of this, the office portfolio is 111 579 m<sup>2</sup> with an average vacancy of 2 percent (5 percent last year), and the industrial portfolio is 186 937 m<sup>2</sup> with an average vacancy of 9 percent (11 percent last year).

The largest buildings by value are:

- Douglas Roberts Centre which is a 19 166 m<sup>2</sup> office building in Bedfordview. It is budgeted to contribute 3 percent of property earnings in the new financial year. It is commented on further in the section dealing with Capital Projects.

## Manager's Report

- Strijdom Industrial Park in Strijdom Park, Randburg, which is a 25 037 m<sup>2</sup> complex consisting of 45 units, is budgeted to contribute 2 percent of property earnings in the new financial year. The park is currently 2 percent vacant (nil vacancy at the end of last year). A lease has, however, been concluded for the vacant space as from 1 October 2007.
- Grayston Ridge Office Park which is in Sandton and comprises three prime office buildings measuring 10 023 m<sup>2</sup> in total, set in a secure, attractively landscaped environment. It is budgeted to contribute 1 percent of earnings in the new financial year. The complex is currently 5 percent vacant (20 percent last year).
- Mifa Industrial Park which is a 34 002 m<sup>2</sup> industrial park in Midrand, comprising 10 buildings and flexible premises varying between 780 m<sup>2</sup> and 4 000 m<sup>2</sup> with offices and ample parking. It is budgeted to contribute 2 percent of property earnings in the new financial year. The complex is currently 8 percent vacant (the same as last year). A lease has been concluded on nearly half of the vacant space from 1 December 2007 and negotiations are presently under way on the remaining space.

Buildings with material vacancies or the threat of materially increased vacancies are:

	Rentable area (m <sup>2</sup> )	Vacant area (%)	Monthly loss (R000)
<b>Offices</b>			
<b>Actual</b>			
AMR Office Park	9 965	8	59
Grayston Ridge	10 023	5	45
Wierda Mews	2 217	25	42
			146
<b>Potential*</b>			
Grayston Ridge	10 023	35	317
NMG House	2 267	49	83
Sunridge (75 percent)	2 930	15	42
Wierda Mews	2 217	23	42
			484
<b>Industrial</b>			
<b>Actual</b>			
Nashua	7 541	100	377
			377
			1 007

\*Potential is where tenants have indicated that they will not renew their leases.

For more comprehensive details of this portfolio see pages 14 to 15.

### Specialised portfolio

The specialised portfolio comprises two properties:

- Bedford Gardens Private Hospital. The lease with Life Healthcare Group has a further 14 years to run with average escalations of 10.5 percent per annum. It is budgeted to contribute 2 percent of property earnings in the new financial year.
- Johannesburg Airport Holiday Inn. The lease over this property has a further 4 years to run and escalates at an inflation-linked rate, with a 10-year option to renew. It is budgeted to contribute 2 percent of property earnings in the new financial year.

For more comprehensive details of this portfolio see page 15.

### Exposure to major tenants

Exposure to major tenants is as follows (proportionate share where appropriate):

Company	Number	% Total Fountainhead area	% Total Fountainhead rent
Edcon	39	4.3	5.3
Foschini	61	1.7	3.9
Mr Price	38	1.7	2.8
Pick 'n Pay	10	4.6	2.5
Shoprite	6	4.7	2.4
Life Healthcare Group	2	1.9	2.3
Ackermans	25	1.4	2.1
Woolworths	8	3.2	2.1
Standard Bank	20	1.2	2.1
ABSA	23	0.7	2.0
Southern Sun	1	1.9	1.8
The Government of SA	3	2.3	1.7
Pebble Bed Modular Reactor	1	1.3	1.4
New Clicks	20	1.2	1.4
Masstores	4	1.7	1.4
First National Bank	16	0.6	1.3
Truworths	15	0.8	1.2
Murray and Roberts	1	2.6	1.1
Nedbank	15	0.4	1.1
SA Human Rights Commission	1	0.7	0.7
<b>Total</b>		<b>38.9%</b>	<b>40.6%</b>

### Cash funds

A R1 billion facility is available from Standard Bank. Capital commitments at year-end were R192 million. These will be funded by the sale of properties or from the approved loan facility. After the capital commitments the fund will have an unutilised facility of R321 million.

### Units in issue

At year-end the number of units in issue was 996 043 081 (2006: 996 043 081).

### Trading Statement

The Board anticipates that distributions per unit for the year ending 30 September 2008 will increase by between 12 percent and 14 percent compared with the year ended 30 September 2007. This forecast has not been reviewed or reported on by Fountainhead Property Trust's auditors.

### Fees

The service fee payable by the Trust to the Manager for the year was 0.5 percent per annum of the enterprise value of the fund, that is total market capitalisation plus the aggregate amount of borrowings, calculated monthly on the average daily closing prices. The amount paid was R34.02 million (2006: R28.81 million).

The Trust during 2007 paid the following fees and commissions (excluding VAT):

To Broll Property Group for:

(R000)	2007	2006
Administration fees	23 951	19 879
Letting fees	4 847	3 097
	28 798	22 976

To the Motseng Property Services for:

(R000)	2007	2006
Administration fees	1 825	647
Letting fees	171	201
	1 996	848

To McWilliam Murray Realty for:

(R000)	2007	2006
Administration fees	736	668
Letting fees	55	157
	791	825

Asset management fees of R16.824 million (2006: R21.607 million) and R8.688 million (2006: nil) were paid by the Manager to Allan Gray Limited and the Standard Bank of South Africa Limited respectively. Administration fees of R0.939 million (2006: R0.895 million) were paid by the Manager to Broll Property Group.

### Unitholder Spread

According to the Trust's transfer secretaries, the unitholder spread of the Trust is as follows:

Type of unitholder	Number of unitholders	% of securities held
Public	6 862	99.96
Non-public	3	0.04

The non-public unitholders are two directors whose interests are disclosed below, and the Manager whose holding is disclosed in note 2 to the Annual Financial Statements of the Company.

To the best of the Directors' knowledge and belief, Old Mutual Life Assurance Company SA Limited with a holding of 5.9 percent is the only single shareholder registered as being interested beneficially in 5 percent or more of the capital of the Trust. As far as can be ascertained, the following groupings hold significant stakes:

Grouping	Holding
Stanlib	>10%
Old Mutual	>10%
Coronation Fund Managers	>10%
Motor Industry Fund	>5%

### Directors' interests in Fountainhead Property Trust:

	Beneficial holding	Movement
J D Rainier	120 000	-
V C Christian	-	-
W M Kirchmann	74 295	10 000
S Shaw-Taylor	-	-

No directors have any non-beneficial holdings in the Trust.

### Corporate Governance

The Directors endorse the Code of Corporate Practices and Conduct as set out in the 2002 report. By supporting the Code, the Directors recognise their responsibility to conduct the affairs of the Company with integrity and accountability in accordance with generally accepted corporate practices and recognise that they are ultimately accountable and responsible for the performance and affairs of the Company.

As the Trust is not a legal entity and Fountainhead Property Trust Management Limited manages its affairs in terms of the Collective Investment Schemes Control Act, many of the requirements of the Code are not directly applicable. Neither the Trust nor Fountainhead Property Trust Management Limited has employees or an administrative infrastructure of its own, having contracted out these functions to third parties.

Neither the Trust nor the Manager has a share incentive scheme, as there are no employees.

# Fountainhead Property Trust

## Manager's Report

### Board of Directors

Mr McCoy resigned on 22 December 2006. Messrs Mitchell and Nurek and Mrs Govender resigned from the board following the change of control. We thank them, as well as Mr Fury as alternate to Mr Mitchell, for their past contributions which have impacted positively on the affairs of Fountainhead Property Trust Management Limited and Fountainhead Property Trust. In particular we thank Mr Mitchell who served as Chairman for the past ten years for the guidance he has brought to its affairs.

The Board of Directors currently consists of four members. It is the intention of the company to make further suitable appointments during the coming year.

In terms of the Collective Investment Schemes Control Act, the Registrar of Collective Investment Schemes strictly controls the shareholding in the statutory management company. As such its sole current shareholder is The Standard Bank of South Africa Limited and it is thus its nominees who are Directors. Each Director has one vote. The roles of Chairman and Managing Director are separated. Mr Kirchmann is acting as the Chairman of the Company and Mr Rainier is the Managing Director. Mr Rainier is the only executive Director. Mr Rainier and Mr Shaw-Taylor as employees of the controlling shareholder are not independent non-executive directors. Messrs Christian and Kirchmann are independent non-executive Directors. It is the policy of the Company to invite any significant unitholders to be represented on the Board, should they so desire. To date no such request has been received.

The Board meets at least quarterly and retains full and effective control over the Trust. Through a structured approach to reporting and accountability, the Board monitors the activities and performance of management. The Board has responsibility for the Company's overall strategy, acquisitions and divestment policy, approval of development projects and significant matters relating to finance and corporate governance. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable regulations are adhered to. They also have access, at the Company's cost, to independent professional advisors, should they so require.

During the year under review, four meetings were held and the current Directors attended all the meetings.

The Company has established a formal policy to regulate private account dealings in the Trust's units. The Managing Director (alternate Chairman) is the compliance officer from whom authority is required for any dealings outside closed periods. This is applicable to all Directors as well as employees of its asset manager who are

involved in the management of the Trust as well as those employees of the contracted third party managers. The Company enforces a closed period when no private account dealings are permitted from two months prior to year-end or half-year, as the case may be, until such time as the results are published.

The Company has established an audit committee, which has met three times during the year. It comprises Messrs Christian (as Chairman) and Kirchmann, both independent non-executive Directors. Both members attended all three meetings. Both are financially literate. It is not considered necessary to have the interim published results audited. The audit committee has during the year adopted new formal terms of reference and during the year satisfied its responsibilities in compliance with these terms. The new terms of reference are consistent, where not in conflict with the Collective Investment Schemes Control Act, with those required by the amendments to the Companies Act for widely held companies. The board considers that, although the company is not a "widely held company" as defined, as it manages the affairs of a collective investment scheme in property listed on the JSE, it was prudent and right to adopt those requirements insofar as possible.

The mandate of the audit committee is to assist the Board of Directors with discharging its responsibility to safeguard the Company's and Fountainhead Property Trust's assets, maintain adequate accounting records and standards, to review the effectiveness of systems of internal control, and as such to assist the board in meeting its statutory and regulatory responsibility as well as the corporate governance and reporting responsibilities. The Company and the Trust have access to the internal audit functions of its contracted third-party managers.

The external audit firm performs no non-audit services for the Company or the Trust.

Risk Management is the responsibility of the Board. In the Trust the main assets are its properties. Risk is considered to fall into five categories in these circumstances: 1) the risk that the properties are destroyed while not covered by insurance is monitored by the audit committee; 2) the risk that the title deeds for its properties are not in the possession of the Trust is controlled by the Trustee and monitored by the audit committee; 3) the risk of the physical deterioration of the properties is monitored by the Asset Manager; 4) the risk of investment deterioration of the properties is considered on an annual basis by the board as part of its annual investment review; and 5) the risk of theft or fraud by the contracted third-party managers is subject to their own internal audit and internal controls and is reviewed from time to time and reported on to the audit committee.

The following departures from the Code should be noted:

- As the Company has no employees, having contracted out the asset management of the portfolio, the management of the properties and all other aspects of its functions, it has neither worker participation nor affirmative action programmes nor any other employee-targeted programmes. For the same reason it has not formed a remuneration committee. However, it does encourage and support such practices within its contracted third-party managers.

#### **Directors' responsibility**

The Directors of the Company are responsible for the preparation of the financial statements that fairly present the state of affairs and the results of the Trust, in conformity with International Financial Reporting Standards. The Trust's external auditors are responsible for independently auditing and reporting on these financial statements in conformity with International Standards on Auditing. In preparing the financial statements set out in this report, the Directors have used appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates, and have complied with all applicable accounting statements.

The financial statements have been prepared on the going concern basis since the Directors have every reason to believe that the Trust has adequate resources in place to continue in operation for the foreseeable future. The Directors are of the opinion that adequate accounting records are maintained and that no major deficiencies exist in the system of internal controls, which are subject to ongoing review. The external auditors concur with the above statements by the Directors.



**W M Kirchmann**  
*Director*



**J D Rainier**  
*Managing Director*

Fountainhead Property Trust Management Limited  
31 October 2007

## Salient Features

### Financial summary

(R000)	2007	2006	2005	2004	2003	2002	2001
Net contractual property income	<b>477 872</b>	421 977	374 260	330 564	278 957	303 303	174 228
Interest received	<b>27 774</b>	21 476	20 035	30 407	45 823	25 587	15 183
Interest paid	<b>(40 942)</b>	(23 602)	(20 758)	(22 913)	(31 444)	(30 176)	–
	<b>464 704</b>	419 851	373 537	338 058	293 336	298 714	189 411
Trust audit fees, service charges and taxes	<b>(37 202)</b>	(31 394)	(24 880)	(17 332)	(15 296)	(12 941)	(8 039)
	<b>427 502</b>	388 457	348 657	320 726	278 040	285 773	181 372
Transfer from maintenance reserve	–	–	–	–	9 597	–	3 144
Income distributions	<b>427 502</b>	388 457	348 657	320 726	287 637	285 773	184 516
Distribution per unit (cents)	<b>42.92</b>	39.00	35.00	32.20	30.90	30.70	30.70
Weighted average number of units in issue during the period (000)	<b>996 043</b>	996 043	996 043	996 043	930 858	930 858	600 747
Growth in distribution (%)	<b>10.1</b>	11.4	8.7	4.2	0.7	–	6.2

### Sectoral spread

	Contractual rent				Market value			
	2007		2006		2007		2006	
	(R000)	%	(R000)	%	(R000)	%	(R000)	%
Retail	<b>437 205</b>	<b>73</b>	383 875	70	<b>5 128 039</b>	<b>75</b>	4 168 585	76
Offices	<b>85 365</b>	<b>14</b>	80 163	15	<b>823 783</b>	<b>12</b>	631 306	12
Industrial	<b>54 835</b>	<b>9</b>	60 941	11	<b>592 495</b>	<b>9</b>	455 175	8
Specialised	<b>21 890</b>	<b>4</b>	20 269	4	<b>248 809</b>	<b>4</b>	236 755	4
	<b>599 295</b>	<b>100</b>	545 248	100	<b>6 793 126</b>	<b>100</b>	5 491 821	100

### Geographic spread

	Contractual rent				Market value			
	2007		2006		2007		2006	
	(R000)	%	(R000)	%	(R000)	%	(R000)	%
Greater Johannesburg	<b>326 756</b>	<b>54</b>	316 781	58	<b>3 394 970</b>	<b>50</b>	2 758 925	50
Cape Town	<b>135 968</b>	<b>23</b>	115 711	21	<b>1 490 694</b>	<b>22</b>	1 324 784	24
Tshwane	<b>119 671</b>	<b>20</b>	97 362	18	<b>1 781 216</b>	<b>26</b>	1 298 352	24
Durban	<b>16 900</b>	<b>3</b>	15 394	3	<b>126 246</b>	<b>2</b>	109 760	2
	<b>599 295</b>	<b>100</b>	545 248	100	<b>6 793 126</b>	<b>100</b>	5 491 821	100

#### Analysis of lease expiries and reviews as a percentage of rentable area

	Total %	Vacant %	2008 %	2009 %	2010 %	2011 %	2012 %	>2012 %
Retail*	100	6	18	18	20	12	11	15
Offices	100	2	32	14	12	8	15	17
Industrial	100	9	33	17	17	7	11	6
Specialised	100	–	–	–	–	52	–	48
<b>Overall</b>	<b>100</b>	<b>6</b>	<b>23</b>	<b>17</b>	<b>17</b>	<b>12</b>	<b>11</b>	<b>14</b>

\* Benmore Gardens Shopping Centre excluded

#### Analysis of lease expiries and reviews as a percentage of gross rental

	Total %	2008 %	2009 %	2010 %	2011 %	2012 %	>2012 %
Retail*	100	21	22	21	14	13	9
Offices	100	38	17	14	10	13	8
Industrial	100	37	18	19	8	13	5
Specialised	100	–	–	–	47	–	53
<b>Overall</b>	<b>100</b>	<b>25</b>	<b>20</b>	<b>19</b>	<b>14</b>	<b>12</b>	<b>10</b>

\* Benmore Gardens Shopping Centre excluded

#### Analysis of tenant profile

	Number of leases	Revenue contribution
Category A	299	43%
Category B	220	20%
Category C	1 010	37%
<b>Overall</b>	<b>1 529</b>	<b>100%</b>

Category A Large national tenants, large listed tenants, government and major franchisees. These include inter alia, Absa Bank, Edgars Consolidated Stores, FirstRand Bank, Foschini, Pick 'n Pay Stores, Standard Bank, Telkom, Department of Public Works, Electoral Commission, Human Rights Commission, South African Post Office

Category B National tenants, listed tenants, franchisees. These include inter alia, Cell C, Cape Union Mart, Calamari King, Coricraft, Exclusive Books, Flight Centre, Incredible Connection, Nandos, Nu Metro Cinemas, Pie City Holdings, Ocean Basket, Spec Savers

Category C Other tenants comprise all other tenants that do not fall in the above two categories

#### Summary of stock exchange prices

2006/2007	Highest cents	Lowest cents	Last transaction cents	Volumes traded ('000)
October	585	505	580	28,955
November	602	560	590	45,589
December	642	574	610	23,761
January	680	575	656	15,357
February	700	638	640	29,186
March	714	600	685	30,990
April	800	666	750	35,954
May	795	640	693	70,108
June	684	615	650	37,326
July	671	633	650	49,959
August	670	610	640	38,140
September	690	645	675	37,006

# Fountainhead Property Trust

## Property Portfolio

Name of property	Location	Rentable area (m <sup>2</sup> )	Market value (000)	% of portfolio	Cents/unit	Weighted average rental (R/m <sup>2</sup> )	Weighted average rental escalation (%)
<b>RETAIL</b>							
<b>Gauteng</b>							
Centurion Mall (75 percent)	Heuwel Avenue, Centurion	82 219	1 714 255	25.2		116	
Westgate Shopping Centre (41.32 percent)	Ontdekkers Road, Roodepoort	42 390	634 698	9.3		94	
The Boulders Shopping Centre	Old Pretoria Road, Midrand	48 268	383 388	5.6		81	
Benmore Gardens Shopping Centre	Benmore Road, Sandton	14 683	272 624	4.0		85	
Bryanston Shopping Centre	Hobart Road, Bryanston	11 586	190 577	2.8		131	
Southgate Mall (15.97 percent)	Rifle Range Road, Mondeor	11 329	166 299	2.5		93	
The Brightwater Commons	Republic Road, Randburg	41 714	124 980	1.8		68	
Northmead Mall	1st Street, Northmead, Benoni	13 969	66 159	1.0		53	
Rosebank Mews	173 Oxford Road, Rosebank	7 310	54 926	0.9		94	
Dekema Mall	Dekema Road, Wadeville, Germiston	4 632	25 310	0.4		63	
Southgate Value Market (19.01 percent)	Rifle Range Road, Mondeor	3 590	22 035	0.3		49	
<b>Western Cape</b>							
Blue Route Mall	Tokai Road, Tokai, Cape Town	48 304	595 985	8.8		90	
N1 City Mall (58 percent)	Louwjtjie Rothman Street, Goodwood	37 096	454 896	6.7		98	
Kenilworth Centre	Doncaster Road, Kenilworth	43 383	421 907	6.2		82	
<b>Total retail</b>		<b>410 473</b>	<b>5 128 039</b>	<b>75.5</b>	<b>514.8</b>	<b>93</b>	<b>8.5%</b>
<b>OFFICE BLOCKS</b>							
<b>Gauteng</b>							
Douglas Roberts Centre	22 Skeen Boulevard, Bedfordview	19 166	183 124	2.7		53	
Grayston Ridge Office Park	144 Katherine Street, Sandown, Sandton	10 023	101 206	1.5		72	
Rosebank Corner	Jan Smuts Avenue, Rosebank	9 083	78 970	1.2		78	
Dunkeld Office Park	6 North Road, Dunkeld West	5 480	65 878	1.0		93	
AMR Office Park	Concorde Road, Bedfordview	9 965	63 458	0.9		79	
Kimberley-Clark House	Leicester Road, Bedford Gardens	6 017	42 402	0.6		72	
240 Walker Street	Sunnyside, Pretoria	7 807	39 367	0.5		52	
The Ambridge	Vrede Avenue, Epsom Downs	4 407	35 045	0.5		83	
260 Walker Street	Sunnyside, Pretoria	5 279	27 594	0.4		59	
Sunridge (75 percent)	62 Wierda Road East, Wierda Valley	2 930	26 879	0.4		95	
Summit Park	439 Summit Road, Morningside	2 873	25 148	0.4		73	
Human Rights House	29 Princess of Wales Terrace, Parktown	5 176	17 314	0.3		67	
Lakeside Place	Queen Street, Bruma	3 315	13 543	0.2		58	
N.M.G House	256 Kent Avenue, Randburg	2 267	12 477	0.2		86	
Wierda Mews	41 Wierda Road, Wierda Valley	2 217	10 407	0.2		61	
22 Wellington Road	Parktown	3 228	9 479	0.1		60	
RPA Centre	180 Smit Street, Fairland	1 716	7 852	0.1		48	
<b>KwaZulu-Natal</b>							
Delmat House	27 Jan Hofmeyr Road, Westville	3 915	27 242	0.4		93	
Essex Park	46 Essex Terrace, Berea West, Westville	4 344	21 658	0.3		70	
Kent House	1 Neptune Road, Berea West, Westville	2 371	14 740	0.2		81	
<b>Total offices</b>		<b>111 579</b>	<b>823 783</b>	<b>12.1</b>	<b>82.7</b>	<b>70</b>	<b>8.9%</b>

Name of property	Location	Rentable area (m <sup>2</sup> )	Market value (000)	% of port-folio	Cents/unit	Weighted average rental (R/m <sup>2</sup> )	Weighted average rental escalation (%)
<b>INDUSTRIAL</b>							
<b>Gauteng</b>							
Strijdom Industrial Park	Hammer Avenue, Strijdompark, Randburg	25 037	111 222	1.6		37	
Mifa Industrial Park	399 George Street, cnr 16th Road, Midrand	34 002	108 724	1.6		34	
Supreme Industrial Park	Klipriviersberg Road, Steeledale	31 061	65 564	0.9		29	
Nashua House	Old Pretoria Road, Midrand	7 541	45 756	0.6		0	
Pick 'n Pay Warehouse	Nasmith Road, Jupiter Ext. 1, Germiston	10 540	24 273	0.4		26	
Degussa	142 16th Road, Midrand	4 519	24 161	0.3		40	
Dismed House	733 / 747 16th Road, Midrand	2 871	13 386	0.2		36	
Gateway Industrial Park	Graniet Street, Jet Park	4 805	11 528	0.2		30	
Delta	Old Pretoria Road, Midrand	1 504	10 591	0.1		91	
Canberra Industrial Park	Derick Coetzee Street, Jet Park	2 621	7 895	0.1		29	
Strike House	Richards Drive, Halfway House	1 880	6 972	0.1		40	
Monit House	Van Der Bijl Street, Meadowdale	1 985	6 499	0.1		30	
Jay Park	Piet Bekker Street, Jet Park	2 264	6 416	0.1		29	
Cenmag House	Hertz Drive, Meadowdale	2 030	6 278	0.1		32	
Mercury Park	Piet Bekker Street, Jet Park	2 107	6 248	0.1		30	
Astro Place	Van Der Bijl Street, Meadowdale	1 876	6 078	0.1		36	
Humsa House	Graniet Street, Jet Park	2 113	6 065	0.1		20	
Staceyalee Industrial Park	Derick Coetzee Street, Jet Park	1 876	5 806	0.1		32	
The House Of Rubber	Crusher Road, Crown Extension	2 266	5 140	0.1		25	
Lifetime House	Kelly Road, Jet Park	1 801	4 860	0.1		35	
Hydra Park	Piet Bekker Street, Jet Park	1 643	4 385	0.1		30	
Orion Place	Piet Bekker Street, Jet Park	1 519	4 264	0.1		28	
Gail Industrial Park	Patrick Road, Jet Park	1 504	4 201	0.1		30	
Dale House	Cnr Bell & Fleming Streets, Meadowdale	1 308	4 169	0.1		25	
Ventura Industrial Park	Derick Coetzee Street, Jet Park	1 402	4 072	0.1		31	
Medsave House	Fabriek Street, Strijdom Park	2 113	3 127	0.0		23	
Zero Park	Fabriek Street, Strijdom Park	1 180	3 036	0.0		33	
Precision House	Precision Road, Kya Sand	604	1 267	0.0		24	
<b>KwaZulu-Natal</b>							
Murrayfield	Prospecton Road, Prospecton	16 869	43 121	0.6		31	
4 Walter Place	Watervalpark, Mayville	8 242	19 485	0.3		23	
<b>Western Cape</b>							
7 Benbow Avenue	7 Benbow Avenue, Epping 1	5 854	17 906	0.3		25	
<b>Total industrial</b>		<b>186 937</b>	<b>592 495</b>	<b>8.7</b>	<b>59.5</b>	<b>32</b>	<b>9.6%</b>
<b>SPECIALISED</b>							
<b>Gauteng</b>							
Bedford Gardens Private Hospital	Leicester Road, Bedford Gardens	12 817	151 637	2.2		79	
Southern Sun O.R. Tambo							
International Airport	Kempton Park	14 152	97 172	1.5		64	
<b>Total specialised</b>		<b>26 969</b>	<b>248 809</b>	<b>3.7</b>	<b>25.0</b>	<b>71</b>	<b>9.5%</b>
<b>Total property portfolio of Fountainhead</b>		<b>735 958</b>	<b>6 793 126</b>	<b>100.0</b>	<b>682.0</b>	<b>71</b>	<b>8.7%</b>

The average annualised property yield based on valuations as at 30 September 2007 is 7%.

# Balance Sheet

as at 30 September 2007

(R000)	Notes	2007	2006
<b>ASSETS</b>			
<b>Property assets</b>		<b>6 793 126</b>	5 491 821
Investment properties	2	<b>6 575 794</b>	5 281 738
Straight-line lease accrual	3	<b>217 332</b>	210 083
<b>Other current assets</b>		<b>304 772</b>	279 015
Trade and other receivables	4	<b>23 287</b>	24 561
Cash and cash equivalents	5	<b>281 485</b>	254 454
<b>Total assets</b>		<b>7 097 898</b>	5 770 836
<b>UNITHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Unitholders' funds</b>		<b>6 315 086</b>	5 198 076
Capital of the fund	6	<b>1 933 354</b>	1 933 354
Capital reserve		<b>498 517</b>	470 243
Revaluation reserve		<b>3 665 823</b>	2 584 336
Retained earnings		<b>217 392</b>	210 143
<b>Non-current liabilities</b>			
Interest-bearing liability	7	<b>487 000</b>	299 000
<b>Current liabilities</b>		<b>295 812</b>	273 760
Trade and other payables		<b>81 464</b>	77 540
Unitholders for distribution		<b>214 348</b>	196 220
<b>Total unitholders' funds and liabilities</b>		<b>7 097 898</b>	5 770 836

## Income Statement

for the year ended 30 September 2007

(R000)	Notes	2007	2006
<b>Revenue</b>		<b>606 544</b>	539 512
Contractual rental income		<b>599 295</b>	545 248
Straight-line lease adjustment	2, 3	<b>7 249</b>	(5 736)
<b>Expenses</b>		<b>(158 625)</b>	(154 665)
Administrative expenses	8	<b>(37 202)</b>	(31 394)
Property operating expenses	8	<b>(121 423)</b>	(123 271)
<b>Operating profit</b>		<b>447 919</b>	384 847
<b>Net finance costs</b>		<b>(13 168)</b>	(2 126)
Interest received		<b>27 774</b>	21 476
Interest paid		<b>(40 942)</b>	(23 602)
<b>Profit on disposal of investment properties</b>	9	<b>13 371</b>	15 714
<b>Fair value adjustments to investment properties</b>	2	<b>1 096 390</b>	1 026 133
<b>Profit for the year</b>		<b>1 544 512</b>	1 424 568
<b>Basic earnings per unit (cents)</b>	13	<b>155.1</b>	143.0

## Statement of Changes in Unitholders' Funds

for the year ended 30 September 2007

(R000)	Capital of the fund	Capital reserve	Revaluation reserve	Retained earnings	Total unitholders' funds
Balance as at 1 October 2005	1 933 354	421 754	1 588 147	218 710	4 161 965
Profit/Total income and expenses for the year				1 424 568	1 424 568
Profit and revaluation reserve realised on sale of properties transferred to capital reserve		48 489	(29 944)	(18 545)	–
Fair value adjustment on investment properties transferred to revaluation reserve			1 026 133	(1 026 133)	–
Income distributions				(388 457)	(388 457)
<b>Balance at 30 September 2006</b>	<b>1 933 354</b>	<b>470 243</b>	<b>2 584 336</b>	<b>210 143</b>	<b>5 198 076</b>
<b>Profit/Total income and expenses for the year</b>				<b>1 544 512</b>	<b>1 544 512</b>
<b>Profit and revaluation reserve realised on sale of properties transferred to capital reserve</b>		<b>28 274</b>	<b>(14 903)</b>	<b>(13 371)</b>	<b>–</b>
<b>Fair value adjustment on investment properties transferred to revaluation reserve</b>			<b>1 096 390</b>	<b>(1 096 390)</b>	<b>–</b>
<b>Income distributions</b>				<b>(427 502)</b>	<b>(427 502)</b>
<b>Balance at 30 September 2007</b>	<b>1 933 354</b>	<b>498 517</b>	<b>3 665 823</b>	<b>217 392</b>	<b>6 315 086</b>

Fountainhead Property Trust  
**Cash Flow Statement**  
 for the year ended 30 September 2007

(R000)	Notes	2007	2006
<b>Cash effects from operating activities</b>			
Profit for the year		1 544 512	1 424 568
Adjustments for:			
Straight-line lease adjustment		(7 249)	5 736
Interest received		(27 774)	(21 476)
Interest paid		40 942	23 602
Profit on disposal of investment properties		(13 371)	(15 714)
Fair value adjustments to investment properties		(1 096 390)	(1 026 133)
		<b>440 670</b>	390 583
Trade and other receivables reduced		1 274	2 411
Trade and other payables raised		3 924	7 596
<b>Cash generated from the operations</b>		<b>445 868</b>	400 590
Interest received		27 774	21 476
Interest paid		(40 942)	(23 602)
Income distributions	11	(409 374)	(367 541)
<b>Cash flows from operating activities</b>		<b>23 326</b>	30 923
<b>Cash effects from investing activities</b>			
Additions to investment properties		(234 147)	(160 502)
Proceeds from disposal of investment properties		49 852	76 523
		<b>(184 295)</b>	(83 979)
<b>Cash effects from financing activities</b>			
Long-term loan raised		202 000	123 000
Long-term loan repaid		(14 000)	(53 000)
		<b>188 000</b>	70 000
Net increase in cash and cash equivalents		27 031	16 944
Cash and cash equivalents at 1 October		254 454	237 510
<b>Cash and cash equivalents at 30 September</b>	5	<b>281 485</b>	254 454

# Notes to the Annual Financial Statements

as at 30 September 2007

## 1. Accounting policies

Fountainhead Property Trust (the Trust) is a trust domiciled in South Africa. The financial statements were authorised for issue by the directors of Fountainhead Property Trust Management Limited on 31 October 2007.

### 1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Collective Investment Schemes Control Act.

### 1.2 Basis of preparation

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

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

The accounting policies set out below are consistent in all material respects with those applied in prior years.

### 1.3 Investment properties

Investment properties are properties which are held for the purpose of earning rental income and for capital appreciation.

Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure. Subsequent expenditure relating to investment properties is capitalised when it is probable that future economic benefits associated with the item will flow to the Trust and when the cost can be reliably measured. All other subsequent expenditure is expensed in the period in which it is incurred.

Subsequent to initial recognition investment properties are measured at their fair values. Fair value is determined annually by an independent valuer based on the open market value basis, using either the discounted cash flow method or the capitalisation of net income method. Gains or losses arising from changes in fair value are included in profit or loss for the period in which they arise. These gains or losses are transferred to a revaluation reserve as they are not available for distribution.

Realised gains and losses on the disposal of investment properties are recognised in net income for the year and are calculated as the difference between the sale price and the sum of the carrying amount of the property and the straight-line lease accrual. The net gain or loss on the sale of investment properties is transferred to the capital reserve. The balance relating to the sold properties which was previously included in the revaluation reserve is also transferred to the capital reserve.

### 1.4 Impairment

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

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

The recoverable amount of other assets is the greater of their net selling price and the fair value less costs to sell. 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.

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. 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.

### 1.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, negotiable certificates of deposit and surplus funds deposited in the Trust's access bond facility, all of which are available for use by the Trust.

Cash and cash equivalents are measured at fair value.

### 1.6 Financial instruments

A financial instrument is recognised if the Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Trust's contractual rights to the cash flows from the financial assets expire or if the Trust transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

#### Measurement

Financial instruments are initially measured at fair value, which includes transaction costs, except in the case of financial instruments carried at fair value through profit and loss. Subsequent to the initial recognition these instruments are measured as set out below:

- **Trade and other receivables**

Trade and other receivables are carried at amortised cost, using the effective interest rate method after deducting accumulated impairment losses.

- **Other investments in debt and equity**

The Trust classified its investments in debt and equity securities into the following categories:

- at fair value through profit and loss;
- held-to-maturity; and
- available-for-sale.

Held-to-maturity investments are those that the Trust has the positive intent and ability to hold to maturity and these are held at amortised cost using the effective interest rate method, after deducting accumulated impairment losses.

Financial assets classified as at fair value through profit and loss and available-for-sale are held at fair value which is the market price at the reporting date.

- **Trade and other payables**

Trade and other payables are carried at cost.

- **Financial liabilities**

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 income statement over the period of the borrowings on an effective interest basis. Financial liabilities are measured at amortised cost using the effective interest rate method.

#### Changes in fair value on subsequent measurement

Changes in fair value on subsequent measurement of financial assets classified as:

- at fair value through profit and loss are recognised in profit and loss
- available-for-sale are recognised directly in equity, other than changes related to impairment losses, which are recognised in profit and loss.

#### Set-off

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

### 1.7 Capital reserve

All surpluses / deficits arising on the disposal of investment properties are transferred to the capital reserve and are not available for distribution.

### 1.8 Revaluation reserve

All unrealised surpluses / deficits arising on the revaluation of investment properties and financial instruments from cost to fair value are transferred to the revaluation reserve and are not available for distribution.

## Notes to the Annual Financial Statements

as at 30 September 2007

### 1.9 Revenue

Rental income comprises gross rental and is recognised in the income statement on a straight-line basis over the period of the term of the lease. Lease incentives granted and costs incurred that are directly attributable to the lease, are recognised as an integral part of the total rental income.

### 1.10 Interest income

Interest income is recognised on a time proportion basis which takes into account the effective yield on the asset over the period it is expected to be held.

### 1.11 Segmental information

The Trust consists of investment properties. The Trust earns revenue in the form of rentals from tenants of these investment properties. On a primary basis, the Trust is organised into five major operating segments:

- Retail segment comprising mainly shopping centres;
- Office segment comprising mainly office parks and office buildings;
- Industrial segment comprising mainly industrial buildings such as warehouses and factories;
- Specialised segment comprising a hospital and a hotel; and
- Corporate segment comprising all assets and expenses not directly attributable to the other segments.

On a secondary basis, the geographical location of the properties has been identified.

The basis of segment reporting is representative of the internal structure used for management reporting.

Segment results include revenue and property expenses that are directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to that segment, whether from external transactions or from transactions with other Trust segments.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to a segment on a reasonable basis. Segment assets are reported after deducting related allowances that are reported as direct offsets in the Trust's balance sheet.

Capital expenditure represents the total costs incurred during the period to acquire segment assets that are expected to be used during more than one period.

(R000)	2007	2006
<b>2. Investment properties</b>		
Independent property valuations	6 793 126	5 491 821
Straight-line lease accrual	(217 332)	(210 083)
<b>Investment properties at fair value</b>	<b>6 575 794</b>	<b>5 281 738</b>
<b>Movement for the year</b>		
Balance at 1 October	5 281 738	4 153 081
Expenditure/costs capitalised	234 147	160 502
Carrying amount of investment properties disposed of	(36 481)	(57 978)
Fair value adjustments	1 096 390	1 026 133
Unrealised surplus on revaluation of investment properties	1 103 639	1 020 397
Change in straight-line lease accrual	(7 249)	5 736
Balance at 30 September	<b>6 575 794</b>	<b>5 281 738</b>
With the exception of six investment properties which are partially held – (see property portfolio on page 14), all other investment properties are 100% held by the Trust.		
Investment properties are reflected at fair value. Fair value is the market value of the property less the straight-line lease accrual. It is the policy of the Trust to obtain independent valuations of the investment properties annually.		
The investment properties were independently valued on 30 September 2007 by E.G. Rode and K. Scott, registered valuers with Rode & Associates CC, both members of the South African Institute of Valuers.		
The market valuation methodology is based on capitalising the first year's market-related, normalised net operating income (before tax) at a market-derived capitalisation rate. Appropriate adjustments are made to this value to reflect the effects of leases which are above or below market rentals. Two specialised properties are valued on a discounted cash flow basis.		
<b>3. Straight-line lease accrual</b>		
Non-current receivable	182 868	183 728
Current receivable	34 464	26 355
	<b>217 332</b>	<b>210 083</b>
Rental income from investment property leased out under operating leases is recognised in the income statement on a straight-line basis over the terms of the leases. Lease incentives granted are recognised as an integral part of the total rental income.		
<b>4. Trade and other receivables</b>		
Rent debtors	14 699	13 690
Prepayments	2 756	4 354
Other debtors	5 832	6 517
	<b>23 287</b>	<b>24 561</b>
<b>5. Cash and cash equivalents</b>		
Deposits at banks	2 485	1 454
Deposits in access bond (see note 7)	279 000	253 000
	<b>281 485</b>	<b>254 454</b>

## Notes to the Annual Financial Statements

as at 30 September 2007

(R000)	2007	2006
<b>6. Capital of the fund</b>		
Balance at 30 September	1 933 354	1 933 354
Units in issue at 30 September 2007 – 996 043 081 (2006: 996 043 081). The capital of the fund is governed by the Trust Deed which can be viewed upon request at the registered office.		
<b>7. Interest-bearing liability</b>		
The Standard Bank of South Africa Limited	487 000	299 000
This is an access bond facility and funds are deposited into this account when they become available. The amount deposited in this facility is reflected in note 5 above. The loan bears interest at prime less 2.3 percent payable monthly in arrears. The capital of the loan is repayable by instalments of R150 000 000 on 30 September 2010 to 30 September 2012 and R37 000 000 on 30 September 2013. The Standard Bank of South Africa Limited is entitled and reserves the right to register First Covering Mortgage over the properties for a total amount of R1.26 billion.		
<b>8. Income and expenditure</b>		
<b>8.1 Administrative expenses include:</b>		
Audit fees	706	592
Service fee paid to the Manager	34 016	28 810
<b>8.2 Property operating expenses include:</b>		
Property management fees	26 512	24 257
The service fee is equal to 0.5 percent per annum of the Trust's enterprise value. The enterprise value is the sum of the market capitalisation and the long-term borrowings of the Trust. The market capitalisation is based on the average daily closing price of the units as quoted on the JSE.		
<b>9. Profit on disposal of investment properties</b>		
Profit on disposal of investment properties	13 371	15 714

The following investment properties were disposed of by the Trust during the year:

(R000)	Carrying value	Proceeds	Surplus on disposal
<b>2007</b>			
– 377 Rivonia Boulevard	13 628	21 500	7 872
– 271 Oak Avenue	10 484	14 000	3 516
– Fourways Haulage	8 083	10 000	1 917
– Cyrus House	4 286	4 352	66
	36 481	49 852	13 371

(R000)	Carrying value	Proceeds	Surplus on disposal
<b>2006</b>			
– Saffer	17 798	24 000	6 202
– Euro Park	8 456	11 500	3 044
– Verona Industrial Park	6 415	7 424	1 009
– Chamdor Factory	4 849	6 000	1 151
– Eastsands Industrial Park	4 511	5 563	1 052
– Prairie Industrial Park	3 727	4 534	807
– Saxon Industrial Park	4 309	4 500	191
– Westar Place	2 454	3 000	546
– Westsands Industrial Park	2 179	2 658	479
– Crescent Place	1 866	2 500	634
– Thermo House	1 800	2 305	505
– Custom Place	1 237	1 300	63
– Rally Place	1 208	1 239	31
	60 809	76 523	15 714

(R000)	2007	2006
<b>10. Taxation</b>		
The Trust is not liable for income tax or capital gains tax as the income and capital gains vest in the unitholders' hands. The Trust therefore does not provide for current taxation or deferred taxation.		
<b>11. Notes to the cash flow statement</b>		
<b>Income distributions</b>		
Amounts unpaid at 1 October	(196 220)	(175 304)
Distributable income for the year	(427 502)	(388 457)
Amounts unpaid at 30 September	214 348	196 220
	(409 374)	(367 541)
<b>12. Income distribution per unit</b>		
Income distribution per unit is calculated based on distributable earnings of R427.5 million for the year ended 30 September 2007 (2006: R388.5 million) and on a weighted average number of units in issue of 996 043 081 (2006: 996 043 081).		
<b>Distribution income reconciliation</b>		
Profit for year	1 544 512	1 424 568
Straight-line lease adjustment	(7 249)	5 736
Profit on disposal of investment properties	(13 371)	(15 714)
Fair value adjustments to investment properties	(1 096 390)	(1 026 133)
Distribution income	427 502	388 457
<b>Income distribution</b>		
Interim distribution	213 154	192 237
Final distribution	214 348	196 220
	427 502	388 457
<b>13. Basic and headline earnings per unit</b>		
Basic earnings per unit is calculated based on earnings of R1 544.5 million for the year ended 30 September 2007 (2006: R1 424.6 million) and on a weighted average number of units in issue of 996 043 081 (2006: 996 043 081).		
Headline earnings per unit is calculated based on earnings of R434.7 million for the year ended 30 September 2007 (2006: R382.7 million) and on a weighted average number of units in issue of 996 043 081 (2006: 996 043 081).		
<b>Headline earnings reconciliation</b>		
Profit for the year	1 544 512	1 424 568
Profit on disposal of investment properties	(13 371)	(15 714)
Fair value adjustments to investment properties	(1 096 390)	(1 026 133)
Headline earnings	434 751	382 721

# Notes to the Annual Financial Statements

as at 30 September 2007

(R000)	2007	2006
<b>14. Operating lease rentals</b>		
As at 30 September 2007, the Trust had contracted with tenants for the following future minimum lease rentals:		
Within one year	513 669	461 581
In the second to fifth years inclusive	1 163 401	953 891
After five years	604 617	500 400
<b>Total future minimum lease rentals</b>	<b>2 281 687</b>	<b>1 915 872</b>

## 15. Capital commitments

As at 30 September 2007 the capital contractual commitments were R192 million (2006: R341.3 million). Funds to meet these commitments can be provided by the Trust out of existing approved loan facilities.

## 16. Management company

The management company, Fountainhead Property Trust Management Limited, is wholly owned by The Standard Bank of South Africa Limited.

## 17. Borrowing powers

In terms of its Trust Deed, the Trust may borrow up to 30 percent of the value of the underlying assets comprising the portfolio, effectively the value of the investment properties.

The borrowings of the Trust at 30 September 2007 were R487 million (2006: R229 million), which is 7.2 percent (2006: 5.4 percent) of the value of the property portfolio.

## 18. Contingent liabilities

### Guarantees

The Trust has provided bank guarantees in lieu of deposits for municipal services and electricity to the value of R3.4 million (2006: R2.7 million).

## 19. Subsequent events

The Directors are not aware of any events subsequent to 30 September 2007, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report.

## 20. Defined contribution plan

As the Trust has no employees there are no obligations arising from a defined contribution plan.

## 21. Financial risk management

The Trust's financial instruments consist mainly of deposits with banks, loans from banks, accounts receivable and accounts payable.

In respect of all financial instruments listed above, carrying value approximates fair value.

Exposure to interest rate, credit and liquidity risk arises in the normal course of business.

### Credit risk management

Potential areas of credit risk consist mainly of trade receivables. Management has a credit policy in place. Trade receivables consist of a large widespread tenant base. The outstanding balance of these tenants is monitored on an ongoing basis. Reputable financial institutions are used for investing and cash-handling purposes.

At balance sheet date there were no significant concentrations of credit risk.

Impairments are raised for all specific doubtful debts and at year-end management did not consider there to be any material credit risk exposure.

(R000)	2007	2006
<b>Interest rate risk management</b>		
The company's exposure to interest rate risk and the interest rates on financial instruments at balance sheet date were:		
<b>Financial assets</b>		
Accounts receivables	23 287	24 561
Cash and cash equivalents	281 485	254 454
<b>Total financial assets</b>	<b>304 772</b>	279 015
<b>Financial liabilities</b>		
Unsecured loan from The Standard Bank of South Africa Limited	487 000	299 000
Floating 2.3 percent points below prime (2006: 1.75 percent points below prime)	11.20%	9.75%
Accounts payable	81 464	77 540
Unitholders for distribution	214 348	196 220
<b>Total financial liabilities</b>	<b>782 812</b>	572 760
<b>Liquidity risk management</b>		
Cash flows are monitored on a weekly basis to ensure that cash resources are adequate to meet funding requirements.		
The Trust's borrowings are limited by the Trust Deed to 30% of the value of the property portfolio.		
Value of property portfolio	6 793 126	5 491 821
30% thereof	2 037 938	1 647 546
Total borrowings	(487 000)	(299 000)
Unutilised borrowing capacity	<b>1 550 938</b>	1 348 546
<b>22. Related parties</b>		
Related parties with whom the Trust transacted during the year:		
<b><i>Fountainhead Property Trust Management Limited</i></b>		
Relationship: Manager of the Trust in terms of the Collective Investment Schemes Control Act		
Related party transactions for the year:		
– Service fee paid to Fountainhead Property Trust Management Limited	34 016	28 810
<b><i>The Standard Bank of South Africa Limited</i></b>		
Relationship: Shareholder in Fountainhead Property Trust Management Limited		
Related party transactions for the year:		
– Loan	487 000	299 000
– Interest on loan	40 942	23 602
– Interest income	27 434	21 170
– Bank charges	218	221
– Gross rent received	12 162	11 938
– Sponsor fee	55	55
<b><i>Absa Bank Limited</i></b>		
Relationship: Trustee of Fountainhead Property Trust		
Related party transactions for the year:		
– Interest income	193	157
– Bank charges	62	54
– Trustee fees	476	453
– Gross rent received	9 516	9 725

## Notes to the Annual Financial Statements

as at 30 September 2007

**23. Change of name**

The Standard Bank of South Africa Limited has purchased the interest of Allan Gray Limited and has become the sole shareholder of Fountainhead Property Trust Management Limited, the management company of Fountainhead Property Trust, with effect from 1 June 2007. The Trust therefore changed its name from Allan Gray Property Trust to Fountainhead Property Trust.

**24. Forthcoming requirements**

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. None of these forthcoming requirements will have a material impact on the Trust's financial statements, except for additional disclosures in terms of IFRS 7 Financial Instruments: Disclosures (IFRS 7) and the amendments to IAS 1 Presentation of Financial Statements (IAS 1).

IFRS 7 and the amendments to IAS 1, which will be effective for the year ended 30 September 2008, require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amendments to IAS 1 will require additional disclosures with respect to the Trust's financial assets and capital.

(R000)	Retail 2007	Office 2007	Industrial 2007	Specialised 2007	Corporate 2007	Total 2007
<b>24. Segmental information</b>						
<b>24.1 Business segment</b>						
<b>Segment revenue</b>						
Contractual rental income	437 205	85 365	54 835	21 890	–	599 295
Straight-line rental adjustment	(4 741)	(1 477)	4 220	9 247	–	7 249
<b>Total revenue</b>	<b>432 464</b>	<b>83 888</b>	<b>59 055</b>	<b>31 137</b>	<b>–</b>	<b>606 544</b>
<b>Segment result</b>						
Operating profit/(loss)	347 949	61 582	44 403	30 967	(36 982)	447 919
Interest received	1 136	102	116	5	26 415	27 774
Interest paid	–	–	–	–	(40 942)	(40 942)
Profit on disposal of investment properties	–	11 388	1 983	–	–	13 371
Fair value adjustments to investment properties	806 141	141 973	145 469	2 807	–	1 096 390
	<b>1 155 226</b>	<b>215 045</b>	<b>191 971</b>	<b>33 779</b>	<b>(51 509)</b>	<b>1 544 512</b>
<b>Other information</b>						
Property assets	5 128 039	823 783	592 495	248 809	–	6 793 126
Trade and other receivables	16 843	3 737	2 661	4	42	23 287
Cash and cash equivalents	1 297	–	–	–	280 188	281 485
<b>Total assets</b>	<b>5 146 179</b>	<b>827 520</b>	<b>595 156</b>	<b>248 813</b>	<b>280 230</b>	<b>7 097 898</b>
Interest-bearing liabilities	–	–	–	–	487 000	487 000
Trade and other payables	40 427	20 996	12 224	282	7 535	81 464
Unitholders for distribution	–	–	–	–	214 348	214 348
<b>Total liabilities</b>	<b>40 427</b>	<b>20 996</b>	<b>12 224</b>	<b>282</b>	<b>708 883</b>	<b>782 812</b>
Capital expenditure	158 054	76 093	–	–	–	234 147

(R000)	Retail 2006	Office 2006	Industrial 2006	Specialised 2006	Corporate 2006	Total 2006
<b>24. Segmental information (continued)</b>						
<b>24.1 Business segment (continued)</b>						
<b>Segment revenue</b>						
Contractual rental income	383 875	80 163	60 941	20 269	–	545 248
Straight-line rental adjustment	(13 831)	(2 693)	469	10 319	–	(5 736)
<b>Total revenue</b>	<b>370 044</b>	<b>77 470</b>	<b>61 410</b>	<b>30 588</b>	<b>–</b>	<b>539 512</b>
<b>Segment result</b>						
Operating profit/(loss)	281 589	58 183	45 939	30 423	(31 287)	384 847
Interest received	1 512	109	115	2	19 738	21 476
Interest paid	–	–	–	–	(23 602)	(23 602)
Profit on disposal of investment properties	–	–	15 714	–	–	15 714
Fair value adjustments to investment properties	731 224	164 559	101 318	29 032	–	1 026 133
	<b>1 014 325</b>	<b>222 851</b>	<b>163 086</b>	<b>59 457</b>	<b>(35 151)</b>	<b>1 424 568</b>
<b>Other information</b>						
Property assets	4 168 585	631 306	455 175	236 755	–	5 491 821
Trade and other receivables	13 799	3 901	3 403	3	3 455	24 561
Cash and cash equivalents	1	–	–	–	254 453	254 454
<b>Total assets</b>	<b>4 182 385</b>	<b>635 207</b>	<b>458 578</b>	<b>236 758</b>	<b>257 908</b>	<b>5 770 836</b>
Interest-bearing liabilities	–	–	–	–	299 000	299 000
Trade and other payables	39 564	15 914	9 741	260	12 061	77 540
Unitholders for distribution	–	–	–	–	196 219	196 219
<b>Total liabilities</b>	<b>39 564</b>	<b>15 914</b>	<b>9 741</b>	<b>260</b>	<b>507 280</b>	<b>572 759</b>
Capital expenditure	141 140	19 330	32	–	–	160 502

## Notes to the Annual Financial Statements

as at 30 September 2007

(R000)	2007	2006
<b>24.2 Geographical segments</b>		
<b>Segment revenue by location</b>		
The following table shows the distribution of the Group's consolidated rentals by geographical location:		
Gauteng	457 568	421 427
Western Cape	132 597	103 084
KwaZulu-Natal	16 379	15 001
	<b>606 544</b>	539 512
<b>Analysis of segment assets by location</b>		
The following table shows the carrying amount of segment assets by the geographical area in which the assets are located:		
Gauteng	5 195 095	4 078 567
Western Cape	1 495 922	1 329 850
KwaZulu-Natal	126 651	110 069
Corporate	280 230	252 350
	<b>7 097 898</b>	5 770 836
<b>Capital expenditure by location</b>		
The following table shows the capital expenditure by the geographical area in which the assets are located:		
Gauteng	229 605	124 406
Western Cape	4 542	36 096
KwaZulu-Natal	–	–
	<b>234 147</b>	160 502

**Segment revenue and expenses**

Revenue and expenses that are directly attributable to properties in a segment are allocated to those segments. Expenses not directly attributable to a segment are allocated to the corporate segment.

**Segment assets and liabilities**

Segment assets include all operating assets used by a segment and consist principally of investment properties, receivables and cash. Assets not directly attributable to a particular segment are allocated to the corporate segment. Segment liabilities include all operating liabilities of a segment and consist principally of outstanding accounts.

## Balance Sheet

as at 30 September 2007

(R000)	Notes	2007	2006
<b>Assets</b>			
<b>Non-current assets</b>			
Investment in Fountainhead Property Trust	2	1 687	1 289
<b>Current assets</b>			
Trade and other receivables	3	3 517	2 721
Cash and cash equivalents	4	9 193	4 376
<b>Total assets</b>		<b>14 397</b>	<b>8 386</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	5	1 000	1 000
Revaluation reserve		1 015	675
Retained earnings		1 867	4 172
<b>Non-current liabilities</b>			
Deferred taxation	7	172	114
<b>Current liabilities</b>			
Trade and other payables		9 995	2 042
Taxation payable		348	383
<b>Total equity and liabilities</b>		<b>14 397</b>	<b>8 386</b>

## Income Statement

for the year ended 30 September 2007

(R000)	Notes	2007	2006
<b>Revenue</b>			
Service fee		34 471	29 155
Interest received		34 016	28 810
Distributions received		352	253
		103	92
<b>Expenditure</b>			
Administration expenses		27 597	23 518
Audit fees		567	617
Directors' fees	6	62	56
Donations		285	343
Management and administration fees	8	232	–
		26 451	22 502
<b>Profit before taxation</b>		<b>6 874</b>	<b>5 637</b>
<b>Taxation</b>			
South African normal tax	7	2 779	1 969
Secondary tax on companies		1 979	1 631
		800	338
<b>Profit for the year</b>		<b>4 095</b>	<b>3 668</b>

## Statement of Changes in Equity

as at 30 September 2007

(R000)	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at 1 October 2005	1 000	646	3 204	4 850
Fair value adjustment on investment in Fountainhead Property Trust		34		34
Deferred taxation thereon		(5)		(5)
Net income recognised directly in equity		29		29
Profit for the year			3 668	3 668
Total recognised income and expense for the year		29	3 668	3 697
Dividends paid			(2 700)	(2 700)
<b>Balance at 30 September 2006</b>	<b>1 000</b>	<b>675</b>	<b>4 172</b>	<b>5 847</b>
<b>Fair value adjustment on investment in Fountainhead Property Trust</b>		<b>398</b>		<b>398</b>
<b>Deferred taxation thereon</b>		<b>(58)</b>		<b>(58)</b>
<b>Net income recognised directly in equity</b>		<b>340</b>		<b>340</b>
<b>Profit for the year</b>			<b>4 095</b>	<b>4 095</b>
<b>Total recognised income and expense for the year</b>		<b>340</b>	<b>4 095</b>	<b>4 435</b>
<b>Dividends paid</b>			<b>(6 400)</b>	<b>(6 400)</b>
<b>Balance at 30 September 2007</b>	<b>1 000</b>	<b>1 015</b>	<b>1 867</b>	<b>3 882</b>

## Cash Flow Statement

for the year ended 30 September 2007

(R000)	Notes	2007	2006
<b>Cash flows from operating activities</b>			
Profit before taxation		6 874	5 637
Adjustments for:			
Interest received		(352)	(253)
		6 522	5 384
Trade and other receivables increased		(796)	(183)
Trade and other payables raised		7 953	67
<b>Cash generated from operations</b>		<b>13 679</b>	<b>5 268</b>
Interest received		352	253
Taxation paid	9.1	(2 814)	(2 378)
Dividends paid	9.2	(6 400)	(2 700)
<b>Net cash inflow from operating activities</b>		<b>4 817</b>	<b>443</b>
<b>Cash and cash equivalents at 1 October</b>		<b>4 376</b>	<b>3 933</b>
<b>Cash and cash equivalents at 30 September</b>	<b>4</b>	<b>9 193</b>	<b>4 376</b>

# Notes to the Annual Financial Statements

as at 30 September 2007

## 1. Accounting policies

Fountainhead Property Trust Management Limited (the company) is a company domiciled in South Africa. The financial statements were authorised for issue by the directors on 31 October 2007.

### 1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act and the Collective Investment Schemes Control Act.

### 1.2 Basis of preparation

The financial statements are presented in Rands. They are prepared on the historical cost basis, except for certain financial instruments which are stated at fair value.

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

### 1.3 Revenue

Revenue comprises service fees, interest income and distributions received.

### 1.4 Service fees

Service fees represent management fees received for the asset management of the Trust, and are recognised on an accrual basis.

### 1.5 Distributions received

Distributions on investments are taken into account where the distribution date falls within the accounting period.

### 1.6 Interest income

Interest income is recognised on an accrual basis, using the effective interest method.

### 1.7 Taxation

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

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

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

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

### 1.8 Revaluation reserve

All unrealised surpluses/deficits arising on the revaluation of the investment in the Trust to market value are recognised directly in the revaluation reserve and recycled through the income statement on sale.

### 1.9 Investment in the Trust

The investment is stated at fair value (note 2) and is classified as an available-for-sale asset. Any surplus or deficit arising from a change in fair value is included directly in equity for the year in which it arises.

## Notes to the Annual Financial Statements

as at 30 September 2007

### 1.10 Financial instruments

A financial asset or financial liability is recognised on the balance sheet for as long as the Company is party to the contractual provisions of the instrument. Gains or losses on derecognition of financial assets or liabilities are included in net profit for the year.

#### Measurement

Financial instruments are initially measured at fair value, including directly attributable transaction costs, except in the case of financial instruments carried at fair value through profit and loss. Subsequent to the initial recognition these instruments are measured as set out below.

#### – Trade and other receivables

Trade and other receivables are carried at amortised cost.

#### – Other investments in debt and equity

The Company classifies its investments in debt and equity securities into the following categories:

- at fair value through profit and loss;
- held-to-maturity; and
- available-for-sale.

Held-to-maturity investments are those that the Company has the positive intent and ability to hold to maturity and these are held at amortised cost using the effective interest rate method, after deducting accumulated impairment losses.

Financial assets classified as at fair value through profit and loss and available-for-sale are held at fair value which is the market price at the reporting date.

#### – Trade and other payables

Trade and other payables are carried at cost.

#### – Financial liabilities

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 income statement over the period of the borrowings on an effective interest basis. Financial liabilities are measured at amortised cost using the effective interest rate method.

#### Changes in fair value on subsequent measurement

Changes in fair value on subsequent measurement of financial assets classified as:

- at fair value through profit and loss are recognised in profit and loss
- available-for-sale are recognised directly in equity, other than changes related to impairment losses, which are recognised in profit and loss.

(R000)	2007	2006
<b>2. Investment in Fountainhead Property Trust</b>		
249 904 (2006: 249 904) units in the Trust	<b>1 687</b>	1 289
The investment in the Trust is stated at fair value. The fair value is based on the closing price on the JSE Limited on 30 September.		
<b>3. Trade and other receivables</b>		
Service fee	<b>3 364</b>	2 581
Prepayments	<b>109</b>	60
Other	<b>44</b>	80
	<b>3 517</b>	2 721
<b>4. Cash and cash equivalents</b>		
Deposits at bank	<b>3</b>	27
Negotiable certificates of deposit	<b>5 000</b>	2 000
Deposits on call	<b>4 190</b>	2 349
	<b>9 193</b>	4 376
<b>5. Share capital</b>		
Authorised and issued		
1 000 000 ordinary shares of R1 each	<b>1 000</b>	1 000
<b>6. Directors' remuneration</b>		
<b>Directors' emoluments</b>		
For services as Directors of the Company		
– J D Rainier*	–	–
– W J C Mitchell	–	–
– V A Christian	<b>90</b>	20
– W T Fairhead	–	79
– G W Fury (alternate)	–	–
– D D Govender	–	–
– W M Kirchmann	<b>90</b>	79
– S P McCoy	–	–
– D M Nurek	<b>45</b>	55
– E Osrin	–	55
– S Shaw-Taylor	<b>60</b>	55
Total Directors' remuneration	<b>285</b>	343

\* Executive

**Directors' service contracts**

No Directors have service contracts with Fountainhead Property Trust nor with Fountainhead Property Trust Management Limited.

## Notes to the Annual Financial Statements

as at 30 September 2007

(R000)	2007	2006
<b>7. Taxation</b>		
South African normal taxation		
– current	1 979	1 631
Secondary tax on companies	800	338
	<b>2 779</b>	1 969
<i>The taxation charge is reconciled as follows:</i>		
Profit before taxation	6 874	5 637
Tax calculated at a tax rate of 29%	1 993	1 635
Prepaid expenditure	(14)	(4)
Secondary tax on companies	800	338
Taxation per the income statement	<b>2 779</b>	1 969
<i>The taxation rate is reconciled as follows:</i>	%	%
Statutory taxation rate	29.00	29.00
Prepaid expenditure	(0.21)	(0.07)
Secondary tax on companies	11.64	6.00
Effective tax charge	<b>40.43</b>	34.93
Deferred taxation liability		
Opening balance	114	109
Fair value adjustment of investment in Fountainhead Property Trust	58	5
Closing balance	<b>172</b>	114
Deferred tax comprises:		
Deferred tax on fair value adjustment of investment in Fountainhead Property Trust	<b>172</b>	114
<b>8. Management and administration fees</b>		
The following management and administration fees were paid during the year:		
Allan Gray Limited	16 824	21 607
The Standard Bank of South Africa Limited	8 688	–
Broll Property Group (Proprietary) Limited	939	895
	<b>26 451</b>	22 502
<b>9. Notes to the cash flow statement</b>		
<b>9.1 Taxation paid</b>		
Amounts unpaid at 1 October	497	901
Amounts charged to income statement	2 779	1 969
Amount recognised directly in equity	58	5
Amounts unpaid at 30 September	(520)	(497)
	<b>2 814</b>	2 378
<b>9.2 Dividends paid</b>		
Amounts unpaid at 1 October	–	–
Amounts declared	6 400	2 700
Amounts unpaid at 30 September	–	–
	<b>6 400</b>	2 700

## 10. Additional information required in terms of the Collective Investment Schemes Control Act of 2002.

In terms of the Collective Investment Schemes Control Act, 2002, the Company is required to have a minimum capital of R1 021 000. At 30 September 2007 the capital balance was R3 882 000.

The cost of the investment in Fountainhead Property Trust at 30 September 2007 was R499 808 (2006: R499 808).

## 11. Financial risk management

The Company's financial instruments consist mainly of its investment in Fountainhead Property Trust, deposits with banks, accounts receivable and accounts payable.

In respect of all financial instruments listed above, carrying value approximates fair value.

Exposure to interest rate, credit and liquidity risk arises in the normal course of business.

### Interest rate risk management

Exposure to interest risk is considered minimal. Interest is earned on deposits on call, deposits at bank as well as negotiable certificates of deposit.

### Credit risk management

Credit risk is considered to be minimal. Trade receivables consist of the service fee from Fountainhead Property Trust. Reputable financial institutions are used for investing and cash-handling purposes.

At balance sheet date there were no significant concentrations of credit risk.

Impairments are raised for all specific doubtful debts and at year-end management did not consider there to be any material credit risk exposure.

### Liquidity risk management

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

## 12. Related parties

### *Holding companies*

The holding company of Fountainhead Property Trust Management Limited is The Standard Bank of South Africa Limited (100 percent).

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

Fountainhead Property Trust Management Limited is the Manager of Fountainhead Property Trust in terms of the Collective Investment Schemes Control Act. The Standard Bank of South Africa is the holding company.

### *Type of related party transactions*

A service fee has been received from Fountainhead Property Trust. The management company has paid administration fees to The Standard Bank of South Africa Limited.

All transactions between related parties have occurred at arm's length.

### *Material related party transactions*

Service fee	–	refer Income statement
Management and administration fees	–	refer note 8
Directors' emoluments	–	refer note 6

## 13. Change of control

The Standard Bank of South Africa Limited has purchased the interest of Allan Gray Limited and has become the sole shareholder of Fountainhead Property Trust Management Limited (previously Allan Gray Property Trust Management Limited), with effect from 1 June 2007.

## 14. Forthcoming requirements

There are a number of forthcoming new standards and interpretations, which have been issued by the IASB prior to the publication of these financial statements, but which are only effective in future accounting periods, unless early adoption is chosen. None of these forthcoming requirements will have a material impact on the Trust's financial statements, except for additional disclosures in terms of IFRS 7 Financial Instruments: Disclosures (IFRS 7) and the amendments to IAS 1 Presentation of Financial Statements (IAS 1).

IFRS 7 and the amendments to IAS 1, which will be effective for the year ended 30 September 2008, require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amendments to IAS 1 will require additional disclosures with respect to the company's financial assets and capital.

## Director's Report

for the year ended 30 September 2007

<b>NATURE OF BUSINESS:</b>	The Company continued with its business as the Manager for the Trust in terms of the Collective Investment Schemes Control Act.
<b>GENERAL REVIEW:</b>	The results for the year under review 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>DIVIDENDS:</b>	A dividend of R6.4 million (2006: R2.7 million) was declared during the year.
<b>DIRECTORS:</b>	<p>The Directors of the Company are as follows:</p> <p>J D Rainier (Managing Director)</p> <p>W M Kirchmann</p> <p>V A Christian</p> <p>S Shaw-Taylor</p> <p>W J C Mitchell (resigned 31 May 2007)</p> <p>G W Fury (alternate to W J C Mitchell – resigned 31 May 2007)</p> <p>D D Govender (resigned 31 May 2007)</p> <p>D M Nurek (resigned 31 May 2007)</p> <p>S P McCoy (resigned 22 December 2006)</p>
<b>MANAGERS AND SECRETARIES:</b>	Broll Property Group (Proprietary) Limited
<b>Business address:</b>	<p>2nd Floor, Broll House</p> <p>27 Fricker Road</p> <p>Illovo 2196</p> <p>Johannesburg</p>
<b>Postal address:</b>	<p>PO Box 1455</p> <p>Saxonwold 2132</p>
<b>AUDITORS:</b>	KPMG Inc. are reappointed in terms of Section 270 of the Companies Act.
<b>REGISTRATION NO:</b>	1983/003324/06

# Approval of the Annual Financial Statements

for the year ended 30 September 2007

The directors are responsible for monitoring the preparation of and the integrity of the financial statements and related information included in this annual report.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the audit committee.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework. There is no indication that there was a breakdown in the functioning of these controls during the period under review.

The external auditors, KPMG Inc., are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards, and the South African Companies Act and Collective Investment Schemes Control Act. They are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors believe that Fountainhead Property Trust and Fountainhead Property Trust Management Limited will be going concerns in the year ahead. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The annual financial statements for the period ended 30 September 2007 set out on pages 16 to 38 were approved by the board of directors of Fountainhead Property Trust Management Limited on 31 October 2007 and are signed on its behalf by:



**W M Kirchmann**

*Director*

31 October 2007



**J D Rainier**

*Managing Director*

## Certificate by Company Secretary

for the year ended 30 September 2007

We hereby certify that for the year ended 30 September 2007, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of Section 268 G(d) of the Companies Act, 1973, as amended, and all such returns are true, correct and up to date.

**Broll Property Group (Proprietary) Limited**

*Secretaries*

31 October 2007

# Report of the Independent Auditors

for the year ended 30 September 2007

## To the unitholders of Fountainhead Property Trust and the members of Fountainhead Property Trust Management Limited

We have audited the annual financial statements of Fountainhead Property Trust and Fountainhead Property Trust Management Limited, which comprise the balance sheet at 30 September 2007 and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 13 to 38.

### Directors' 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 in the manner required by the Companies Act of South Africa and the Collective Investment Schemes Control Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control 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 control 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 control. 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, the financial statements present fairly, in all material respects, the financial position of Fountainhead Property Trust and Fountainhead Property Trust Management Limited at 30 September 2007, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Collective Investment Schemes Control Act and Companies Act of South Africa.

### KPMG Inc.



### Per G M Pickering

Chartered Accountant (SA)  
Registered Auditor  
Director

31 October 2007

Fountainhead Property Trust

## Report of the Trustee

for the year ended 30 September 2007

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

### To the unitholders of Fountainhead Property Trust

During the period as set out above during which the Collective Investments Schemes Control Act 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 Deed.



**Absa Bank Limited**

Trustee

Johannesburg

31 October 2007

## Unitholders' Diary

Financial year-end	30 September
Interim results announcement	May
Interim distribution paid	May
Final results announcement	November
Final distribution paid	November
Annual financial statements	December









[www.fountainheadproperty.co.za](http://www.fountainheadproperty.co.za)

