



# **FOUNTAIN**HEAD

Property Trust ■■■■■■

**INTEGRATED ANNUAL REPORT 2011**

# CONTENTS

IFC	Financial Highlights
2	Structure
3	Overview
4	Stakeholder Analysis
5	Risk Management
6	Chairman's Report
8	Directorate and Administration
10	Corporate Governance
16	Manager's Report
27	Salient Features
32	Property Portfolio
34	Fountainhead Property Trust
51	Fountainhead Property Trust Management Limited
60	Directors' Report
61	Management Company's Responsibility and Approval of the Annual Financial Statements
62	Directors' Responsibility and Approval of the Annual Financial Statements
63	Report of the Audit and Risk Committee
64	Independent Auditor's Reports
66	Report of the Trustee
66	Certificate by Company Secretary
66	Unitholders' Diary

# FINANCIAL HIGHLIGHTS

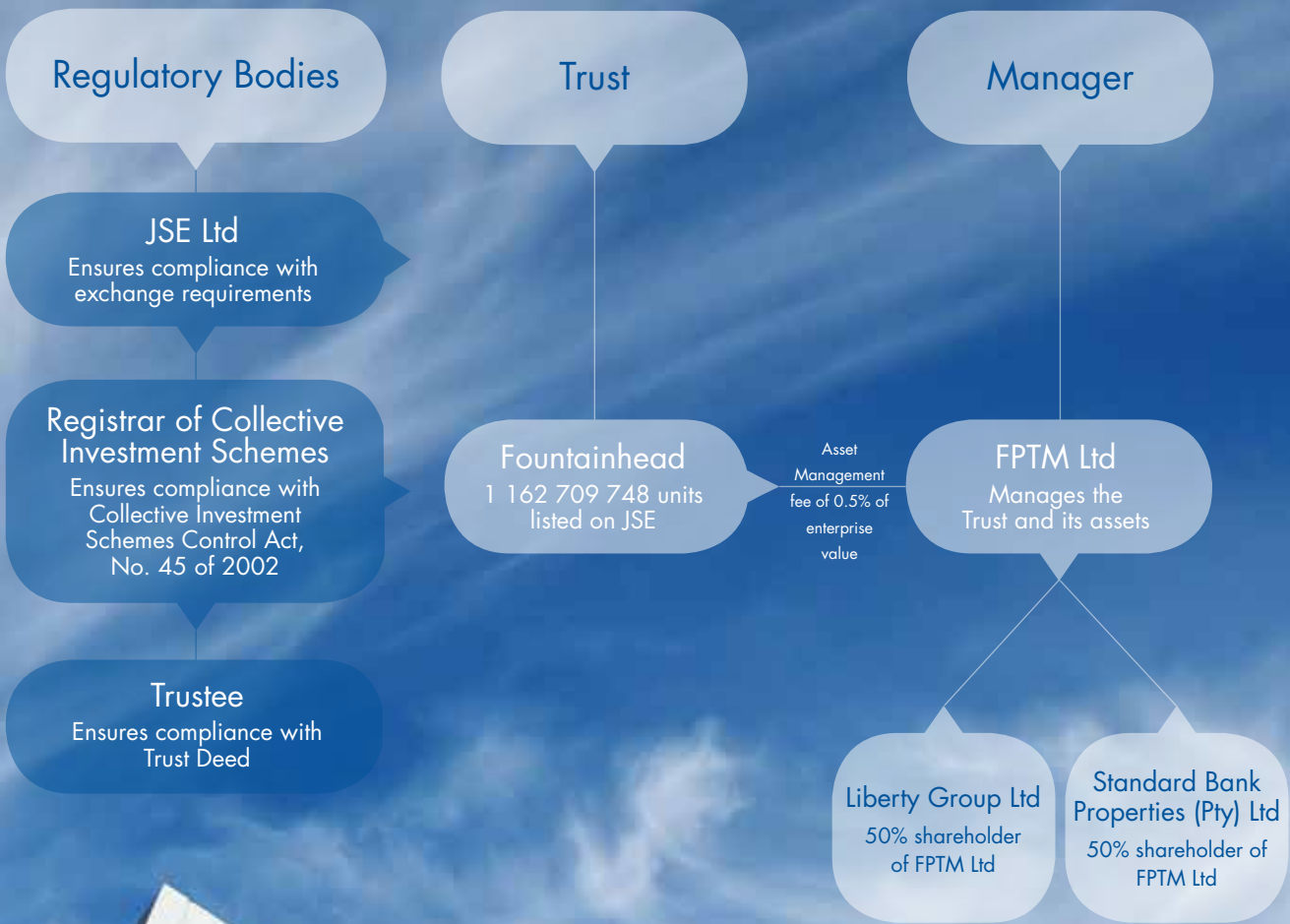
	2011	2010
Distributions		
Cents per unit	55.27	54.08
Growth	2.2%	4%
Average vacancy factor (based on lettable space)	7%	7%
Property portfolio valuations (Rm)	8 815	7 940
Funding capacity (Rm)		
Maximum borrowings in terms of Trust Deed	3 526	2 382
Approved facility	2 735	2 188
Unutilised facility after capital commitments	183	75
Fountainhead Property Trust units (cents per unit)		
Net asset value	669	674
Listed market price at year-end	670	692
(Decrease)/increase on previous year	(3.17%)	11%
Premium to net asset value	0.1%	2.6%
FTSE/JSE Property Trust Index at year-end	424	423
Increase on previous year	0.2%	19%

Front Cover: Centurion Mall

This spread: 300 Middel Street



# STRUCTURE



# OVERVIEW

## 2011 highlights

- R1 billion rights offer successfully concluded and oversubscribed by 33 percent.
- Property portfolio totalling R8.8 billion.
- Corporate social initiatives at shopping centres totalling approximately R1 million in value.
- R17 million spent on energy-consumption reduction initiatives.
- Total return of 5.1 percent for the year.
- Total distribution of 55.27 cents per unit.

## Profile

Fountainhead Property Trust (Fountainhead) 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. It is a closed-end fund and is obliged to distribute all net income earned to its unitholders. As a result of its distribution obligations, Fountainhead is not taxed on its income. The Registrar of Collective Investment Schemes regulates Fountainhead in so far as its compliance with the Collective Investment Schemes Control Act (CISCA) is concerned and the JSE Limited (JSE) regulates its trading regulations.

Fountainhead is managed by Fountainhead Property Trust Management Limited (FPTML) whose investment policy is to create wealth for Fountainhead 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.

## Strategy and values

Fountainhead will continue its strategy of improving the quality of its property portfolio and providing sustainable and growing returns for its unitholders in the long term. This strategy will be implemented by acquiring quality properties with good growth prospects, while also disposing of properties which no longer offer good growth prospects. In addition, the refurbishment of existing assets will be undertaken where a reasonable return can be generated for unitholders. In implementing this strategy, Fountainhead will always attempt to act in the best interests of our various stakeholders, priding itself in being a corporate citizen of good standing.

## Report, scope and boundary

This is Fountainhead's first Integrated Annual Report, as such its integrated reporting framework is still in its infancy. It is envisaged that this framework will improve and mature with time. The Board views this process as a journey and considers it a priority. The report covers the twelve months ended 30 September 2011.

The identification of our stakeholders and their various concerns were gathered as part of a detailed risk analysis exercise performed by management and the Board, as well as through management's ongoing interaction with stakeholders. In formulating the best approach, experts were engaged who assisted the process in accordance with the principles of King III, the Global Reporting Initiative (GRI), as well as International Financial Reporting Standards (IFRS) and the Companies Act of South Africa, 2008.

Utility consumption figures disclosed in this report includes consumption relating to Fountainhead's various tenants. While Fountainhead has undertaken various energy-saving initiatives throughout the portfolio, the buy-in of tenants is ultimately required in order to achieve meaningful savings.

As Fountainhead and FPTML have no employees, reporting on this aspect is limited.

The sustainability report has been published without independent assurance.

# STAKEHOLDER ANALYSIS

Our stakeholders can be broadly defined as people or organisations that affect us or are affected by our operations and actions. A successful stakeholder engagement process requires that we commit to actively engage with our stakeholders, listen to their reasonable needs and concerns, build a relationship with them and then respond to their concerns in a mutually beneficial way. Accordingly, our stakeholder engagement process is designed to ensure that those affected by our operations are heard and their material issues proactively addressed in a systematic manner.

In 2011 we prepared a detailed analysis of our stakeholder base. This was done through a series of workshops. The stakeholders were identified taking into account the criteria of influence, i.e. those stakeholders with influence or decision-making power and dependency, i.e. those stakeholders that are most dependent on us.

Using the above criteria, we analysed and determined which stakeholder groups we would choose to address in this integrated report. The table that follows lists our key stakeholder groups and our understanding of their material issues and concerns. These concerns have been addressed throughout the Manager's report that follows.

Stakeholder	Method of engagement	Material concerns
Unitholders (whole integrated report)	Results presentations Investor analysts visits	Distribution growth Total return on investment Competency of management Long-term sustainability of investment
Bankers (whole integrated report)	Regular meetings with management	Servicing of debt Financial covenants Counterparty going concern
Trustees of scheme (page 66)	Daily contact with management	Compliance with CISCA Compliance with Trust Deed
Tenants (pages 23 – 24)	Regular interaction mainly via outsourced property managers	Performance in terms of lease agreement Property management and regulatory compliance Operating cost management Safe and secure shopping experience for customers
Property managers (pages 24 and 28)	Monthly executive meetings Daily interaction via asset managers	Compliance with management agreements Key performance indicator assessments Reliance on income from client
Local government (pages 23 and 28)	Regular interaction mainly via outsourced property managers	Timely payment of utility and rates charges Infrastructure impact of properties Energy-saving initiatives
General suppliers and service providers (Corporate governance report, page 28)	Regular interaction mainly via outsourced property managers	Timely payment of goods and services Fair tender processes and procurement criteria
Shoppers and surrounding communities (pages 23 – 24)	Regular interaction mainly via outsourced property managers	Safe and secure shopping environment Corporate social investment Communication with surrounding community
Regulators (Corporate governance report, pages 23 – 24)	Submission of periodic returns	Compliance with laws and regulations

# RISK MANAGEMENT

Risk management has been identified as a key element in the practice of good corporate governance. The risk management principles adopted are based on the principles of King III. The major strategic risks together with any mitigating strategy are listed below:



Key risk	Mitigation strategy	Affected stakeholder
Investment property deterioration affecting long-term sustainability of the business, impacting profitability and the ability to pay expenses	Annual analysis of property’s projected performance by the Board. Property management outsourced to specialists. Asset managers ensure that properties are properly managed. Regular site visits by management. Annual building inspection by trustees.	Unitholders Property managers Trustees Bankers Local government General suppliers and service providers Tenants
Risk of tenant default	Detailed leasing strategy in place by property managers approved by asset manager. Background checks on tenants before leases signed. Regular interaction via property managers. Operating cost management initiatives.	Unitholders
Investment property not being adequately insured for damages, loss of income and third party claims	Regular monitoring of insurance cover.	Unitholders Bankers
Non-compliance with the various laws and regulations that govern the business	Regular monitoring of compliance by those charged with governance thereof.	Regulators Trustees
Conflict of interest between FPTML and Fountainhead	Properly constituted Board in place. Acquisitions undertaken have to meet minimum investment criteria.	Unitholders
Breakdown of internal controls at outsourced property managers	Service level agreements in place. Internal controls of the property managers assessed independently by outsourced internal audit function that reports to the Audit and Risk Committee.	Property managers
New acquisitions and redevelopments not meeting Fountainhead’s investment criteria	Minimum investment return criteria in place. Separate investment Committee that analyses all opportunities in detail. Professional due-diligence for all acquisitions.	Unitholders
Incorrect registration details on title deed	Centralised recordal and custody of title deeds by the Trustee.	Unitholders

The Audit and Risk Committee reviewed the plans and reports of the external and internal auditors, as well as the other assurance providers including management, and concluded that these were adequate in addressing all significant financial risks facing the business. The intention is to show a separate report on combined assurance in the future.

# CHAIRMAN'S REPORT

We are proud to present Fountainhead's first Integrated Annual Report. Fountainhead's aim is to improve engagement with its various stakeholders, ensuring that their main concerns and interests are adequately addressed. The content of the integrated report has therefore been tailored towards our various stakeholders and we hope that you find this information useful. The Board and management view the integrated report as work in progress and aim to improve the content over time.

The last financial year has been challenging for all sectors of the South African economy as sovereign debt woes continue to be an issue overseas, creating economic uncertainty in world markets. The local property market has also been negatively affected by continued above-inflation increases in rates and electricity tariffs. Notwithstanding these headwinds local listed property delivered a total return of 8.29 percent compared to bonds of 5.9 percent, equities of 3.2 percent and cash of 5.9 percent during the year ended 30 September 2011.

During 2011 Fountainhead continued its strategy of improving the quality of its property portfolio in order to provide our unitholders with sustainable long-term growing returns. Fountainhead acquired three premium office buildings and disposed of four smaller non-core properties with below average future earnings growth potential. A signed purchase agreement was concluded to acquire the remaining 25 percent in Centurion Mall, one of Fountainhead's best performing assets. The major redevelopment of Blue Route Mall in Cape Town is progressing well with the opening scheduled for 1 April 2012. The completed mall will be a 56 000 m<sup>2</sup> regional shopping centre and should dominate Cape Town's Southern Peninsula retail market, thereby securing good quality earnings.

Fountainhead successfully raised R1 billion of capital during the year through a rights issue. The issue was oversubscribed by approximately 33 percent. The funds have been utilised to redevelop properties and acquire new assets in line with Fountainhead's strategy.

During the year the following changes to the Board of Directors occurred: Mr Segar resigned from the Board effective from 1 August 2011. We would like to thank Mr Segar for all his commitment and contribution to Fountainhead during his term of office. Mr Savage was appointed to the Board on 2 August 2011 and has extensive experience in property development. We look forward to benefiting from his expertise.

We believe conditions in the property market will remain challenging for at least the next twelve months. Listed property has proved to be a defensive asset class capable of delivering solid returns even in difficult trading conditions.



W M Kirchmann

Chairman



Boulders Shopping Centre



VIRGIN ACTIVE HEALTH CLUB  
now open at Boulders

CALL 011 312 7302  
Life is better just where you are



game

GIB

CLICKS  
DISCOM

MAX HEIGHT RESTRICTION  
2.2 METERS MAX LOAD 3 TONS

## DIRECTORATE AND ADMINISTRATION



Benmore Gardens

### Anton Ernest Raubenheimer

**Position** Managing and Financial Director  
**Appointed** 27 November 2008

**Age** 42

**Nationality** South African  
**Qualification** CA (SA)

**Experience** Former Chief Executive Officer and Chief Financial Officer of FPTML and Head of Business Development at Virgin Active (South Africa)

**Current directorships** Parmtro Investments No. 49 Proprietary Limited



### William Michael Kirchmann

**Position** Chairman and Independent Non-executive Director

**Appointed** 1 June 1988

**Age** 74

**Nationality** South African  
**Qualification** RQS.M.A.Q.S

**Experience** Managing Director of Northprop Proprietary Limited. Involved in the property sector since 1960

#### Current directorships

Northprop Proprietary Limited; African Realty Proprietary Limited; Hydenorth Proprietary Limited; Craig Park West Proprietary Limited; Linkway Proprietary Limited; Dainfern Shopping Centre Proprietary Limited; Alexandra Village Proprietary Limited; Tucana Property Holdings Proprietary Limited; Zamia Property Holdings Proprietary Limited; Craig Park Four Proprietary Limited



### Victor Anthony Christian

**Position** Chairman of Audit and Risk Committee and Independent Non-executive Director

**Appointed** 19 July 2006

**Age** 70

**Nationality** South African  
**Qualification** CA (SA)

**Experience** Former partner at Ernst & Young and Non-executive Director of other companies

#### Current directorships

Allan Gray Employee Holdings Proprietary Limited; Allan Gray Life Limited; Allan Gray Unit Trust Management Limited; Phetogo Investments Proprietary Limited; Western Province Rugby Proprietary Limited; Withmore Investments Proprietary Limited; Garden Cities Association Not For Gain



### Haroon Yusuf Laher

**Position** Independent Non-executive Director

**Appointed** 4 December 2008

**Age** 48

**Nationality** South African  
**Qualification** B Proc, LLB

**Experience** Director at Bowman Gilfillan Inc.

practising in the areas of commercial and banking litigation, insolvency and liquidation, BEE mergers and acquisitions, and tax

#### Current directorships

Bowman Gilfillan Inc.



**Administrators**

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

**Transfer Secretaries**

Computershare Investor  
Services Proprietary  
Limited  
70 Marshall Street  
Johannesburg  
2001

**Trustee**

ABSA Bank Limited  
ABSA Towers West  
4th Floor  
15 Troye Street  
Johannesburg  
2001

**Auditor**

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)

**David Stanley Savage**

**Position** Independent Non-executive Director

**Appointed** 2 August 2011

**Age** 47

**Nationality** South African

**Qualification** BSc (Building) and MSc (Building Project Management)

**Experience** Managing Director of Abland since 1998

**Current directorships**

Abland Proprietary Limited and related subsidiaries; The Pivotal Fund Limited

**Stewart Shaw-Taylor**

**Position** Non-executive Director

**Appointed** 29 January 1986

**Age** 59

**Nationality** South African

**Qualification** CA (SA)

**Experience** Global Head of Real Estate Investments for Standard Bank. Over 25 years' experience in property

**Current directorships**

Corovest Fund Managers Limited (Inc. in the British Virgin Islands); Hyprop Investments Limited; Image Ambassadors Proprietary Limited (Botswana); Pivotman Proprietary Limited; Soubrette Investments Proprietary Limited; Standard Bank Properties Proprietary Limited and subsidiaries; The Pivotal Fund Limited; Evening Star Trading 768 Proprietary Limited

**John Daniel Rainier**

**Position** Non-executive Director

**Appointed** 30 June 1997

**Age** 55

**Nationality** South African

**Qualification** BCom, LLB

**Experience** Former Managing Director of Fountainhead Property Trust. Involved in property management since 1980

**Current directorships** None**Donald Samuel Ogbu**

**Position** Non-executive Director

**Appointed** 11 September 2009

**Age** 49

**Nationality** South African

**Qualification** BA (Hons), ACA (England and Wales), MBA

**Experience** Chief Executive Officer of Liberty Properties.

**Current directorships**

Liberty Group Properties Proprietary Limited; Liberty Hotels Proprietary Limited; Cullinan Hotels Proprietary Limited; Evening Star Trading 768 Proprietary Limited



# CORPORATE GOVERNANCE

The Board of Fountainhead Property Trust Management Limited is committed to complying with the principles of good corporate governance as outlined in the King Code on Corporate Governance (King III). The Board acknowledges that maintaining good corporate governance is an ongoing process and will therefore be consistently engaged with it.

As a first step toward compliance with King III, the Board engaged the help of advisers to assist in a gap analysis in order to assess and compare the current practices to those recommended by King III.

After adopting various practices and procedures as recommended by King III, the Board is satisfied with compliance with King III apart from the following principles:

King III Chapter	Principle not fully applied
Board and Directors	<p>No separate Nomination Committee is in place. All appointments are agreed by the whole Board. Due to the size of the Board the current policy is deemed more appropriate.</p> <p>Currently no formal evaluation of the Board, its Committees and individual Directors are performed. A new Board and Committee effectiveness review has been adopted for 2012.</p> <p>No Remuneration Committee is in place as Fountainhead and FPTML do not have any employees. The remuneration of each individual Director and senior executives are therefore not disclosed. Directors' fees are approved by the Board and by FPTML's shareholders.</p>
Audit and Risk Committee	<p>Currently only two of the three Audit and Risk Committee members are Independent Non-executive Directors, with the other member being a Non-executive Director. The Board is looking to appoint a new Independent Non-executive Director in order to fulfil this role.</p>
Integrated reporting and disclosure	<p>The sustainability reporting and disclosure has not been independently assured. It is envisaged that this will be done in the future as this process matures.</p>

## The Board

In terms of the Collective Investment Schemes Control Act, the Registrar of Collective Investment Schemes strictly controls the shareholding of the Manager.

The current shareholders are Standard Bank Properties Proprietary Limited and the Liberty Group Limited who have appointed nominees to act as Directors of the Manager. Each Director has one vote.

The Board comprises seven Non-executive Directors and one Executive Director. The majority of Non-executive Directors are considered independent. The independence of Directors is assessed in accordance with King III, the JSE Listings Requirements, and the Determination of Fit and Property Requirements as issued by the Registrar of Collective Investment Schemes. There exists a balance of power and authority at Board level such that no individual Director has undue powers of decision-making.

On 1 August 2011 Mr Segar resigned as a Non-executive Director. His tenure ended as he resigned from the Liberty Group Limited. On 2 August 2011 Mr Savage was appointed to the Board as an Independent Non-executive Director.

The roles of Chairman and Managing Director are separated. Mr Kirchmann, an Independent Non-executive Director, is the Chairman of the Board. The Board has considered Mr Kirchmann's independent status in terms of his length of service (Director since 1988). The Board is of the opinion that Mr Kirchmann still acts in an independent manner in fulfilling his duties as a Board member. Mr Raubenheimer, as Managing Director, is the only Executive Director. Mr Shaw-Taylor and Mr Ogbu, as employees of the controlling shareholders are not considered independent. In addition, Mr Rainier, as a previous employee of one of the controlling shareholders during the preceding three years, is also not considered independent. Mr Laher, Mr Savage and Mr Christian are classified as Independent Non-executive Directors.

The Board meets at least quarterly and retains full and effective control over Fountainhead. Through a structured approach to reporting and accountability, the Board monitors the activities and performance of management. The Board has responsibility for Fountainhead and FPTML's overall strategy, acquisitions and disinvestment 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 FPTML's cost, to independent professional advisers, should they so require.

The attendance of Board meetings held during the year was as follows:

Director	Attendance
Number of meetings	4
W M Kirchmann (Chairman)	4
A E Raubenheimer (Managing and Financial)	4
V C Christian	4
H Y Laher	3
D S Ogbu	4
S Shaw-Taylor	4
D S Savage (appointed 2 August 2011)	1
S J Segar (resigned 1 August 2011)	3
J D Rainier	4

The following Directors' fees were paid during the year:

	2011 (R000)	2010 (R000)
A E Raubenheimer <sup>^</sup>	80	80
W M Kirchmann	120	120
V A Christian	138	120
H Y Laher	138	120
D S Ogbu~	80	80
J D Rainier†	138	120
D S Savage	13	–
S Segar~	67	80
S Shaw-Taylor <sup>^</sup>	80	80

<sup>^</sup> Paid directly to Standard Bank of South Africa Limited

~ Paid directly to the Liberty Group Limited

† In 2011 R40 000 was paid directly to Standard Bank. In 2010 the full amount was paid directly to Standard Bank.

The Directors' fees are approved by the Board and are considered market related.

The Board has established a formal policy to regulate private account dealings in Fountainhead 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 the asset manager involved in the management of Fountainhead, as well as those employees of the contracted third party managers. The Board enforces a closed period when no private account dealings are permitted from one month prior to year-end or half-year, as the case may be, until such time as the results are published.

Directors' interest in Fountainhead at 30 September 2011 is as follows:

Director	Number of shares	Movement for the year
W M Kirchmann	1 18 006	+18 006
A E Raubenheimer	10 000	+10 000
H Y Laher	768	+768
S Shaw-Taylor	196 733	+96 733
J D Rainier	160 000	–

There has been no change in Directors' interests from the end of the financial year to the date of approval of the annual financial statements.

The Board has adopted a Board and Committee assessment framework. The first assessment will be performed during the 2012 financial year. The evaluation will include an evaluation of the independence of Directors classified as Independent Non-executive Directors.

The Board's role and responsibilities as well as the requirements for its composition and meeting procedures are all detailed in the Board charter. The main functions of the Board as listed in the charter are to:

- ensure that all stakeholder relationships are managed along sound corporate governance principles;
- consider strategy, risk, performance and sustainability;
- provide effective leadership on an ethical foundation;
- ensure that the business is and is seen to be a responsible corporate citizen;
- ensure that ethics are managed effectively;
- ensure that an effective and independent Audit and Risk Committee is in place;
- be responsible for the governance of risk;
- be responsible for information technology (IT) governance;
- ensure compliance with applicable laws and regulations;
- ensure that an effective risk-based internal audit is in place;
- ensure that Directors act in the best interest of the business by adhering to legal standards of conduct, disclose any real or perceived conflicts to the Board, dealing in shares only in accordance with the policy adopted by the Board and encourage Directors to take independent advice when needed in fulfilling their duties; and
- elect a chairman that is an Independent Non-executive Director.

Fountainhead and FPTML have not as yet adopted a code of ethics. An adoption of a code of ethics will be considered during the 2012 financial year. Currently the asset management staff prescribe to Standard Bank of South Africa's code of ethics, by whom they are actually employed. In addition, the staff of the outsourced property managers prescribes to the property managers' code of ethics.

# CORPORATE GOVERNANCE

The Board has the overall responsibility for risk management. Overall the Board has a low risk appetite. During the year ended 30 September 2011 the Board did not take on any undue, unexpected or unusual risks. No material losses were incurred by the business during the year ended 30 September 2011.

The Board is not aware of any current, imminent or envisaged risk that may threaten the long-term sustainability of the business.

The Board maintains overall responsibility for managing the risk management process. In fulfilling these duties, the Board has delegated to the Audit and Risk Committee to ensure that the business has an effective compliance framework and processes in place. During the year, under the guidance of the Audit and Risk Committee, various risk management processes have been put in place that the Board considers to be effective in identifying and mitigating the major risks of the business. A detailed risk register has been established that is reviewed by the Board on an ongoing basis. The risk register details the strategic and operational risks facing the business, the controls in place that mitigate these risks, as well as an action plan to reduce risk when needed.

The Board considers the internal audit function critical to the business. The Board has delegated to the Audit and Risk Committee the responsibility of overseeing this function. Based upon the internal audit findings, the Board is satisfied with the effectiveness of the internal control system.

The Board considers the relationship with the various stakeholders a priority. Management has been delegated the responsibility of ensuring that effective and transparent communication channels are in place with the various stakeholders. In accordance with the requirements of the Registrar of Collective Investment Schemes, Fountainhead has established a Complaint Resolution Policy which is available for viewing on its website and at the registered office. During the year dealings with stakeholders have been in the normal course of business and have been administered in a professional manner.

## Audit and Risk Committee

The Audit and Risk Committee (the Committee) is a statutory committee of the Board of Directors of Fountainhead Property Trust Management Limited in respect of its statutory duties in terms of the Company's Act. In addition, the Committee has similar duties in terms of the Collective Investment Schemes Control Act in relation to Fountainhead. The Committee also has other duties as assigned to it by the Board of Directors.

The Committee comprises three Non-executive Directors, of which two are considered independent.

Director	Period served on Committee
V A Christian	19 May 2006 – present
H Y Laher	4 February 2009 – present
J D Rainier	4 February 2009 – present

The Committee held four meetings during the year. In addition two "corporate governance" workshops took place where all the new corporate governance requirements were discussed and considered by the Committee. The Managing Director and Chief Financial Officer attend each meeting and workshop by invitation. In addition, the internal and external auditors attend certain meetings by invitation.

The attendance for each Director was as follows:

	Audit and Risk Committee
Number of meetings	4
<b>Director</b>	
V A Christian	4
H Y Laher	4
J D Rainier	4

The Committee has adopted formal terms of reference that have been approved by the Board. The Committee has satisfied its responsibilities for the year in compliance with its terms of reference. The main responsibilities of the Committee as listed in the terms of reference are as follows:

- to oversee the integrated reporting process;
- to ensure that the combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- to review the expertise, resources and experience of FPTML's finance function;
- to oversee the internal audit function;
- to oversee the risk management process; and
- to recommend the appointment of the external auditor and to oversee the external audit process.

The internal audit function has been outsourced to BDO. BDO has a direct reporting line to the Committee, and works closely with management in order to help fulfil their duties. The Committee reviewed and approved the internal audit plan for 2011 and is satisfied the plan was executed accordingly. The Committee has reviewed the internal audit findings from BDO for the 2011 financial year. Based on the internal audit findings, the Committee is satisfied that adequate controls exist and operate effectively within the internal control environment. Together with BDO, the Committee will be formulating an internal audit charter for Board approval during 2012.

The Committee has complied with all applicable legal and regulatory responsibilities.

Based on the Committee's experience and assurances received, nothing has come to its attention that may impair the external auditor's independence. The Committee has recommended the reappointment of KPMG Inc. as external auditors for 2012.

The Committee has established a non-audit services policy. During the year the only non-audit service performed by KPMG was to act as independent reporting accountants for the rights offer. A fee of R45 750 was paid for this service.

The Committee has assessed the expertise, adequacy and experience of the finance function and its senior staff members. After discussion with external and internal audit, as well as the Committee's interaction with the finance function, the Committee is satisfied with the expertise and adequacy of the finance function as well as the experience of senior staff members within the finance function. Furthermore, the Committee believes that Mr Raubenheimer, in his

duties as Financial Director, possesses the appropriate expertise and experience to meet his responsibilities in this position as required by the JSE Listings Requirements.

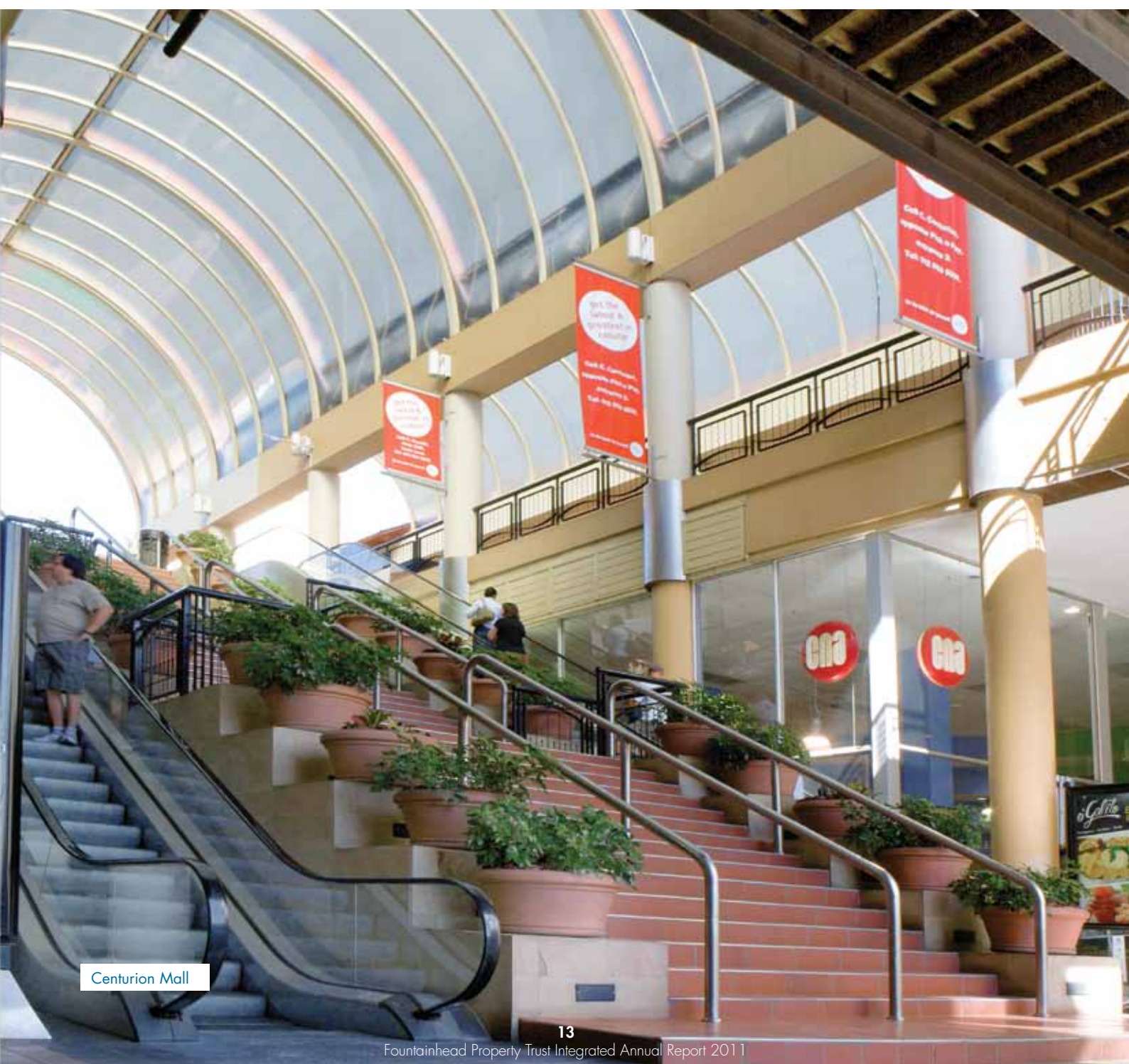
Based on the mandate received by the Board, the Committee approves the 2011 integrated report.

On behalf of the Committee

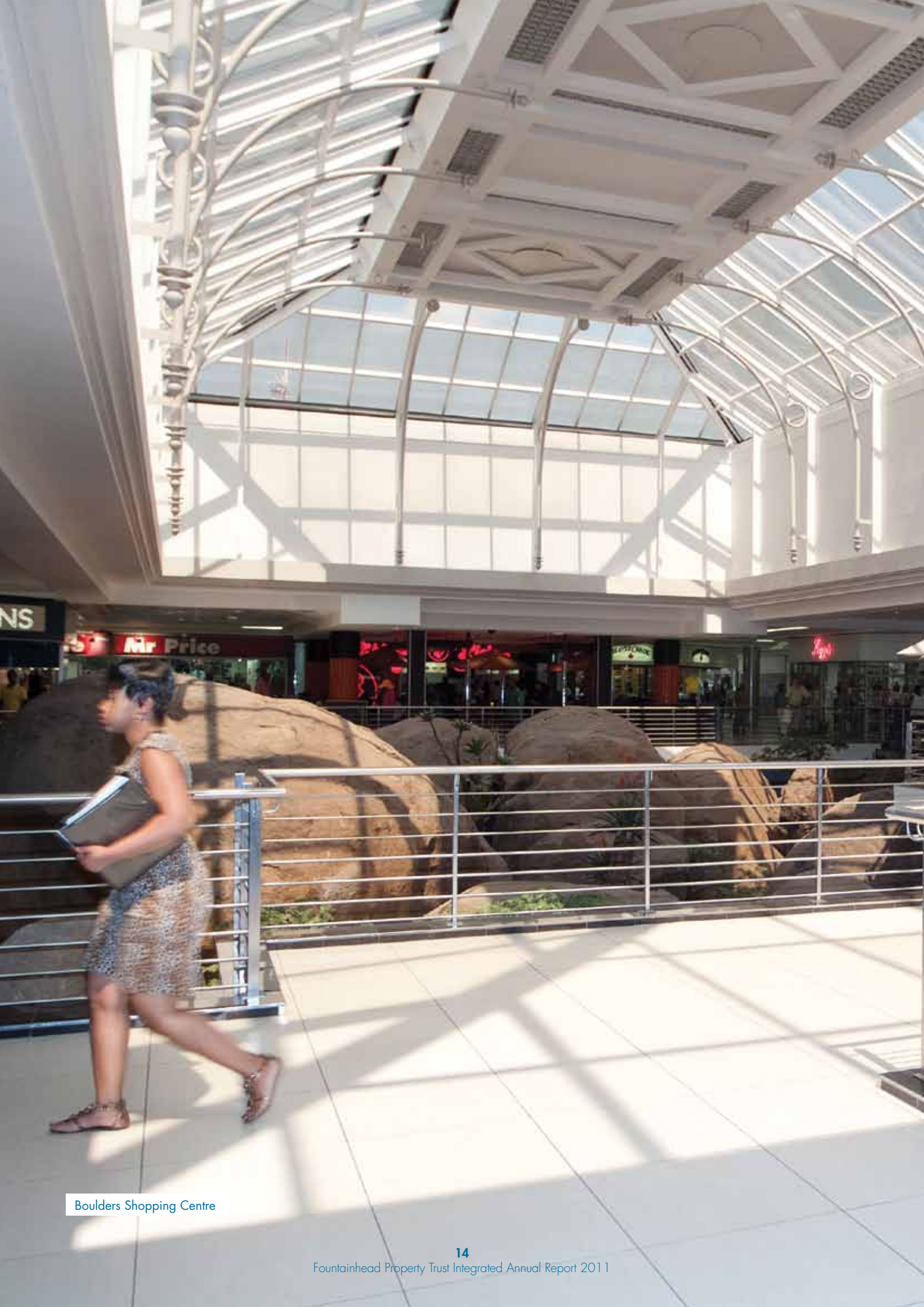
*V. A. Christian*

V A Christian

*Chairman of the Audit and Risk Committee*



Centurion Mall



Boulders Shopping Centre



**WIMPY**



**LETSATSI**  
FINANCE AND LOANS

# MANAGER'S REPORT

## Global economy

The global economy has been stagnant in the past year. Growth in developed economies and job creation has remained relatively muted. The financial crisis which started in 2008 has now spread to Europe. The Eurozone finds itself in a precarious position as some member countries such as Greece, Ireland and Portugal have major solvency issues and are dependent on other member countries for financial assistance. Many countries have been forced to implement austerity measures in order to improve the quality of their sovereign balance sheets. These measures have been very unpopular amongst citizens, but necessary in order to improve the financial health of the economy and improve political stability. Although South Africa is in a better financial position than many developed economies, it is not completely insulated from their negative effects. A weak world economy will result in muted growth in global trade, weak industrial demand and delays in foreign investment.

## The domestic South African economy

The domestic economy is anticipated to grow by 3.1 percent for the year ending 31 December 2011 which is slightly behind the initial projections made in February 2011 according to National Treasury. The economy has been boosted by strong commodity prices and relatively low interest rates which have remained unchanged for the majority of the year with the prime rate set at 9 percent. Inflation, as measured by the Consumer Price Inflation index (CPI), has remained within the government's target range of between 3 and 6 percent. The risk of this range being breached in the next year is on the upper limit but we foresee interest rates remaining low for the next 12 months. Economic growth for 2012 is anticipated to be 3.4 percent rising to 4 percent in 2014 and 2015. The current account deficit of the balance of payments is approximately 4 percent of Gross Domestic Product which is considered reasonable. The budget deficit has increased to 5.5 percent as government has kept spending high in order to be countercyclical to private expenditure which has weakened due to the poor economic environment. Government intends to reduce this deficit going forward to 3.3 percent by 2014. The major focus of government expenditure will be infrastructure investment and maintenance which are key drivers to economic growth and subsequent employment.

CPI Inflation vs BA Rate



■ BA Rate %  
 ■ CPI Inflation %

(Source: HNet Bridge)

## The South African property market

Rode's Report (2011:3) shows the following percentage changes in nominal market rentals over the past year. The data reflects a weak office market but some improvement in industrial rentals across most nodes.

Prime decentralised offices		Prime industrial	
Sandton CBD	10.7	Central Witwatersrand	1.5
Brooklyn/Waterkloof	(5.1)	East Rand	6.0
La Lucia Ridge	(1.0)	Cape Peninsula	8.2
Tyger Valley	1.0	Durban Metro	2.9
		Pretoria Metro	(4.0)

Over this period the BER building cost index was flat at 0 percent.



300 Middel Street



300 Middel Street

# MANAGER'S REPORT

Rode reports that capitalisation rates have improved slightly in line with the trend set by long-term bonds. This could be due to a revival in demand from foreign investors. The instability around European sovereign debt poses a risk to bond yields and should a flight of capital to safety occur, bond yields and capitalisation rates could weaken.

Nominal office rental growth was weak with 5 percent growth being reported nationally for the year. Weak economic activity is affecting business confidence and firms are thinking twice before expanding premises or hiring additional staff. It is anticipated that the lacklustre demand will continue for the foreseeable future resulting in moderate rental growth at best. Office vacancy rates have deteriorated marginally during the year with an average national decentralised vacancy rate of approximately 8 percent compared to 7.5 percent a year earlier. This is caused by continued weak demand from the Finance, Insurance and Real Estate sectors which are the big users of office space.

Prime industrial rentals performed reasonably with positive nominal rental growth being experienced in the Cape Peninsula, Durban and the Witwatersrand. The Kagiso Purchasing Managers Index (PMI) which is an indicator of manufacturing production has recently been sliding, which is a concern for industrial rentals.

Retail sales increased by 7.1 percent at constant prices (Source: Stats SA) for August 2011 compared to August 2010. This is a result of lower interest rates providing some stimulus to the consumer. The retail sector appears to be performing considerably better than the office and industrial sectors.

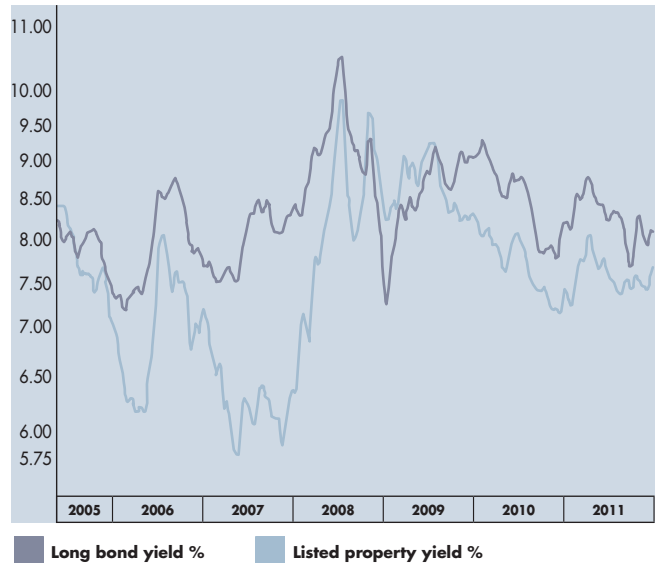
Conditions in the construction industry remain tough. The MFA Composite Leading indicator measured 23 during the last quarter, marginally down from 24 in the prior quarter. A measure of 50 or above equates to optimism. Activity amongst non-residential contractors was better than residential contractors and growth in real gross fixed capital formation exhibited 4 percent for non-residential and -4 percent for residential compared to a year earlier (Source: SARB).

## Buildings completed and plans passed (percentage change on a year earlier)

	Offices	Shops	Industrial	Total
12 months ended August 2011				
Completed	(26)	(18)	(40)	(30)
Plans passed	2	(12)	(13)	(11)
6 months ended August 2011				
Completed	(22)	(7)	(38)	(24)
Plans passed	6	(21)	(7)	(7)

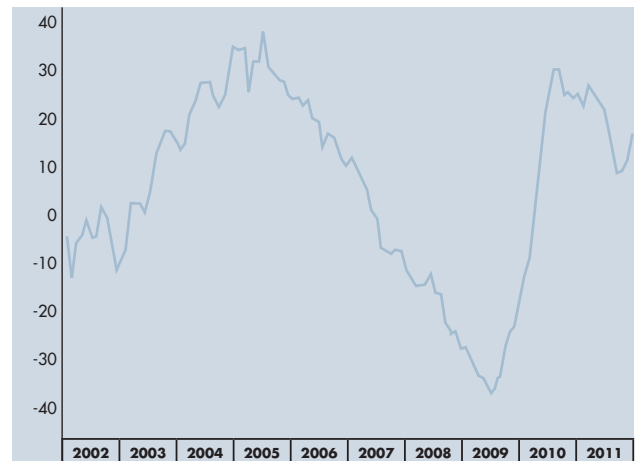
Please note that not all buildings for which plans are passed, are built.

Long Bond Yield vs Listed Property Yield (smoothed)



(Source: INet Bridge)

Total Vehicle Sales (% change on a year earlier – smoothed)



(Source: INet Bridge)

Retail Sales (smoothed) vs BA Rate



(Source: INet Bridge)

The table on the previous page reflects the weakening that has occurred in the construction industry. All categories of property showed a decrease in buildings completed during the year ended August 2011 compared to a year earlier. Despite the low interest rates the building industry is still under pressure which has caused contractor's profit margins to be eroded in a bid to be more competitive for the limited work available. This competitive environment has made it an opportune time for Fountainhead to embark on redevelopments and capitalise on relatively low building costs.

The reduction in building activity will have a positive effect for existing landlords as the rate of supply will decrease allowing for improvements in vacancy levels, which flow through to increased rentals, when the economy recovers.

Notwithstanding the difficult trading environment Fountainhead grew its distribution by 2.2 percent during the year compared to the previous 12 months. A R1 billion rights offer was successfully concluded during the year. In total 166 666 667 units were issued at a price of 600 cents. The offer was oversubscribed by 33 percent and has allowed Fountainhead to continue with its strategy of redeveloping its existing properties and seeking quality acquisitions with superior earnings growth.

Total distributions for the year to 30 September 2011 were R596.446 million, equivalent to 55.27 cents per unit (2010: 54.08 cents). The total distribution comprised an interim distribution of 27.71 cents (2010: 27.25 cents) and a final distribution of 27.56 cents (2010: 26.83 cents) to be paid on 28 November 2011. This is a 2.2 percent increase for the year.

## Vacancy levels

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

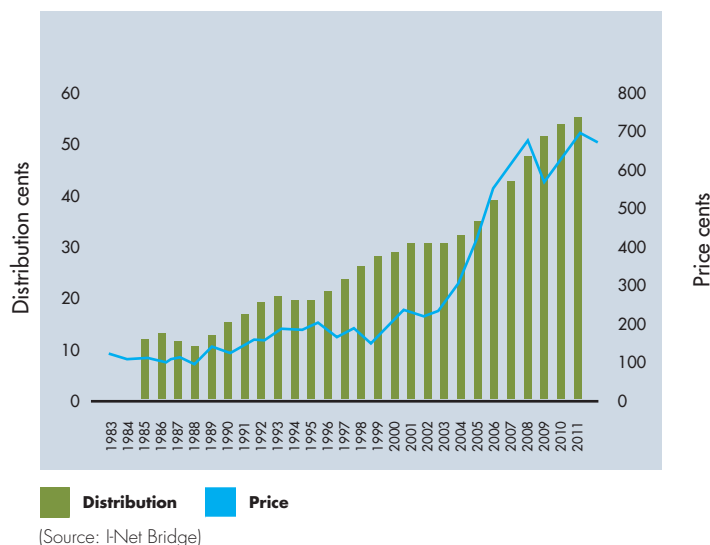
Sector	2011	2010
Retail	7	5
Offices	10	12
Industrial	7	10
Other	-	-
<b>Total</b>	<b>7</b>	<b>7</b>

By value, the vacancies equated to 5 percent of potential rental income, the same as prior year. Approximately 12 percent of the current vacant space has been let for future occupation.

In the retail sector 85 percent of the vacancies were contained in The Brightwater Commons, The Boulders Shopping Centre and at the offices located at Centurion Mall. The vacancy in this sector has increased since prior year mainly due to PBMR vacating office space at Centurion Mall.

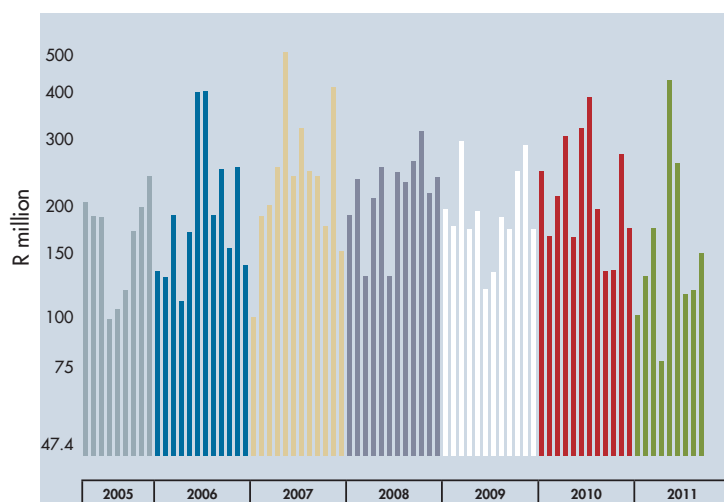
The office sector vacancy is primarily situated in Grayston Ridge, AMR Office Park and Wierda Mews. Letting conditions in this sector remain challenging.

## Distribution and Unit Price



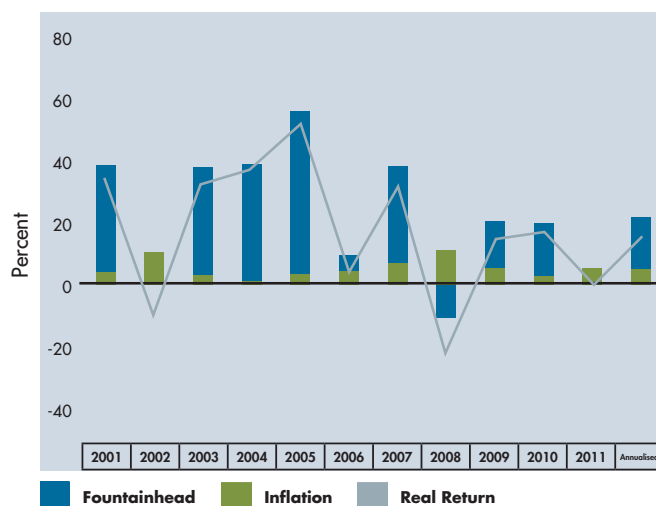
(Source: HNet Bridge)

## Fountainhead Property Trust (Value Traded)



(Source: HNet Bridge)

## Total Return vs Inflation



(Source: HNet Bridge)

# MANAGER'S REPORT



Southern Sun O.R. Tambo International Airport

The industrial sector vacancy is primarily located at Supreme Industrial Park and the Jet Park mini-units.

During the past year 10 086 m<sup>2</sup> of new leases were signed in the office portfolio and 28 987 m<sup>2</sup> of leases were renewed, a total of 28 percent of the rentable area of the office portfolio. The leases were concluded at a cost of 6 percent of the gross value of R276 million.

During the past year 24 566 m<sup>2</sup> of new leases were signed in the industrial portfolio and 25 272 m<sup>2</sup> of leases were renewed, a total of 28 percent of the rentable area of the industrial portfolio. The leases were concluded at a cost of 3.5 percent of the gross value of R66 million.

## Letting Activity

The table below illustrates letting performance during 2011.

	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 2010	21 345	5	15 546	12	20 242	10
Sold	(2 543)	(1)	(469)	(1)	(154)	(0)
Vacated	53 133	13	9 226	6	17 833	10
New leases	(42 714)	(10)	(10 086)	(7)	(24 566)	(13)
Vacant at 30 September 2011	<b>29 221</b>	<b>7</b>	<b>14 217</b>	<b>10</b>	<b>13 355</b>	<b>7</b>
Renewals 2 years plus	55 498		26 597		19 558	
Renewals 1 year	6 414		2 390		5 714	

## Major capital project

### Blue Route Mall

The redevelopment of the mall is progressing well with approximately 68 percent of the work complete. The letting of the mall is in progress, with signed leases representing 96 percent of the new mall's 56 000 m<sup>2</sup> having been concluded. The anticipated opening date of the new mall is April 2012. The cost of the redevelopment is approximately R850 million at a 5 percent incremental yield.

## Acquisitions and disposals

The following properties were acquired during the year:

Sector	Building name	Location	Price (R000)	Initial yield	Transfer date
Office	300 Middel Street	Nieuw Muckleneuk, PTA	219 621	8.65%	7 June 2011
Office	CK3	Constantia Kloof, JHB	204 373	9.40%	30 June 2011
Office	Yellowwood	Bryanston, JHB	32 168	8.50%	27 June 2011

Fountainhead has successfully negotiated the purchase of the remaining 25 percent undivided share in Centurion Mall with an effective date of 1 September 2011. The purchase price is approximately R762 million at an expected initial yield of 7.1 percent. Transfer is expected to take place during December 2011.

In addition Fountainhead has a signed purchase agreement to acquire Access Park for a price of approximately R400 million at a yield of 9 percent. The acquisition is subject to various conditions precedent.

The following properties were disposed during the year:

Sector	Building name	Location	Transfer date	Net selling price (R000)	Carrying value (R000)	Profit on disposal (R 000)
Retail	Northmead Mall	Northmead, Benoni	23 June 2011	50 688	50 264	424
Office	Human Rights House	Parktown, JHB	11 October 2011	38 500	28 661	9 839
Office	22 Wellington Road	Parktown, JHB	2 February 2011	19 500	16 512	2 988
Industrial	Zero Park	Strijdom Park, JHB	14 April 2011	3 700	3 082	618

Subsequent to year-end, Medsave House has been sold for a net price of R2.4 million. Transfer was effective on 3 October 2011.

## Valuation

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

Sector	Value	Cents/	Forward	% of portfolio	
	(Rm)	unit	EY (%)	2011	2010
Retail	6 348	546	8.3	72	74
Office blocks	1 589	137	9.3	18	15
Industrial	571	49	11.3	7	7
Specialised	307	26	10.8	3	4
Total property	8 815	758	8.8	100	100
Interest-bearing liabilities	(1 049)	(90)			
Net current assets	10	1			
	7 776	669			

The portfolio is concentrated significantly in 18 properties making up 85 percent of the portfolio by value. There have been no material changes to the information used and assumptions applied by the registered valuer compared to prior years. The major properties are discussed below.

### Retail portfolio

This portfolio consists of 403 660 m<sup>2</sup> of rentable area, of which 7 percent is vacant at year-end (5 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 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 112 461 m<sup>2</sup> with 88 861 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 25 percent (27 percent last year) of property earnings in the new financial year. The major tenants are Pick n Pay, Woolworths, Edgars, Game, Dischem, Truworths 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 131 167 m<sup>2</sup> node. Retail sales growth for the year to

30 September was 1 percent (12 percent last year). The lower turnover growth is due to the Pick n Pay area reconfiguration where turnover was affected due to the temporary closure of certain tenants during the construction period.

- Westgate Shopping Centre (a 41 percent undivided share) with 106 000 m<sup>2</sup> of retail space. It is budgeted to contribute 9 percent (9 percent last year) of property earnings in the new financial year. The major tenants are Checkers Hyper, Woolworths, Edgars, Game, Pick n Pay, Ackermans, Ster-Kinekor, Hi-Fi Corporation and all the national fashion chains. Retail sales growth for the year to 30 September was 1 percent (4 percent last year).
- Kenilworth Centre with 46 862 m<sup>2</sup> of retail space. It is budgeted to contribute 9 percent (9 percent last year) of property earnings in the new financial year. The major tenants are Pick n Pay, Woolworths, Edgars, Virgin Active, Game and Checkers and all the major national fashion chains. Retail sales growth for the year to 30 September was 5 percent (7 percent last year).
- The Boulders with a total of 48 632 m<sup>2</sup> of space. It is budgeted to contribute 9 percent (9 percent last year) 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. Retail sales growth to 30 September was 5 percent (8 percent last year).
- Blue Route Mall with 39 520 m<sup>2</sup> of retail space. It is budgeted to contribute 9 percent (6 percent last year) of property earnings in the new financial year. The major tenants are Checkers Hyper, Woolworths, Mr Price and Edgars. Most major national fashion chains are represented in the centre as well. Work is in progress on the redevelopment of the centre which is outlined in the section above dealing with capital projects. Due to the redevelopment, retail sales growth for the year to 30 September was negative 2 percent (negative 5 percent last year).
- N1 City Mall (a 58 percent undivided share) with 64 208 m<sup>2</sup> of retail space. It is budgeted to contribute 8 percent (9 percent last year) of property earnings in the new financial year. This centre is anchored by Checkers Hyper, Pick n Pay, Woolworths and Edgars. All national fashion tenants are also represented in the centre. Retail sales growth for the year to 30 September was 4 percent (7 percent last year).

## MANAGER'S REPORT

- Benmore Gardens with 22 682 m<sup>2</sup> of retail and associated office space. It is budgeted to contribute 7 percent (6 percent last year) of property earnings in the new financial year. Pick n Pay anchors this neighbourhood centre. Retail sales growth for the year to 30 September was 1 percent (8 percent last year).
- The Brightwater Commons with 42 325 m<sup>2</sup> of space. It is budgeted to contribute 3 percent (4 percent last year) of property earnings in the new financial year. Major tenants are Pick n Pay, Virgin Active and Woolworths. Retail sales growth for the year to 30 September was negative 10 percent (11 percent last year).
- Bryanston Shopping Centre with 11 634 m<sup>2</sup> of retail space. It is budgeted to contribute 3 percent (3 percent last year) of property earnings in the new financial year. Major tenants in this neighbourhood centre are Checkers and a Woolworths Food Store. Management is currently analysing various schemes to refurbish the centre. Retail sales growth for the year to 30 September was negative 8 percent (15 percent last year).
- Southgate Mall and Value Market (16 percent and 19 percent undivided shares respectively) with 69 029 m<sup>2</sup> and 19 205 m<sup>2</sup> respectively. They are budgeted to contribute 3 percent (3 percent last year) of property earnings in the new financial year. The major tenants are Pick n Pay, Woolworths, Checkers, Edgars, Shoprite, Ster-Kinekor, Virgin Active and Game. Southgate is well positioned to take advantage of the growing new middle class in South Africa. Retail sales growth for the year to 30 September was 2 percent (4 percent last year).

For more comprehensive details of this portfolio see page 32.

### Commercial and industrial portfolio

The total area of the commercial and industrial portfolio is 317 210 m<sup>2</sup> with average vacancy levels at year-end of 9 percent (11 percent last year). Of this, the office portfolio is 139 331 m<sup>2</sup> with an average vacancy of 10 percent (12 percent last year), and the industrial portfolio is 177 879 m<sup>2</sup> with an average vacancy of 7 percent (10 percent last year).

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

- Douglas Roberts Centre which is a 19 166 m<sup>2</sup> office building in Bedfordview. It is budgeted to contribute 4 percent (4 percent last year) of property earnings in the new financial year. The building is totally let to Murray and Roberts on a long-term lease.
- Constantia Kloof 3 (80 percent undivided share) which is a 16 026 m<sup>2</sup> office building in Constantia Kloof. It is budgeted to contribute 3 percent of property earnings in the new financial

year. The building is totally let to Standard Bank on a long-term lease.

- 300 Middel Street which is a 11 405 m<sup>2</sup> office building in Nieuw Muckleneuk, Pretoria. It is budgeted to contribute 3 percent of property earnings in the new financial year. The building is totally let to the Auditor-General on a long-term lease.
- 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 (2 percent last year) of property earnings in the new financial year. The complex is currently 1 percent vacant (1 percent last year).
- 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 (2 percent last year) of property earnings in the new financial year. The park is currently 3 percent vacant (3 percent last year).

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

	Rentable area (m <sup>2</sup> )	Vacant area (%)	Monthly loss (R000)
<b>Retail Actual</b>			
Centurion Mall (offices)	84 346	15	1 253
The Brightwater Commons	42 325	20	280
			<u>1 533</u>
<b>Offices Actual</b>			
Grayston Ridge	10 048	41	370
AMR Office Park	9 965	48	359
Wierda Mews	2 327	50	105
256 Kent Avenue	2 244	49	83
			<u>917</u>
<b>Industrial Actual</b>			
Supreme Industrial Park	31 061	21	194
			<u>194</u>
			<u>2 644</u>

For more comprehensive details of this portfolio see pages 32 to 33.

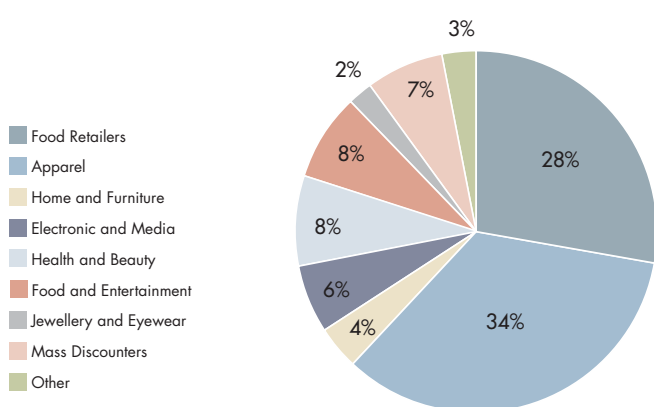
## Specialised portfolio

The specialised portfolio comprises two properties:

- Bedford Gardens Private Hospital. The lease with Life Healthcare Group has a further 10 years to run with average escalations of 10.5 percent per annum. It is budgeted to contribute 3 percent (3 percent last year) of property earnings in the new financial year; and
- Southern Sun O.R. Tambo International Airport. The lease over this property has a further 10 years to run and escalates at an inflation-linked rate. The lease is underwritten by ACSA until 2021. It is budgeted to contribute 2 percent (2 percent last year) of property earnings in the new financial year.

For more comprehensive details of this portfolio see page 33.

## Tenant retail turnover analysis



## Environmental responsibility

### Electricity and water consumption

The table below shows the average monthly electricity and water consumption by sector for the twelve months ended 30 September 2011. Comparative data will be disclosed in future years.

Sector	Reportable area m <sup>2</sup>	Electricity consumption Kwh per m <sup>2</sup> per month	Water consumption Kℓ per m <sup>2</sup> per month
Retail	394 611	27.07	0.11
Office blocks	46 027	11.56	0.07
Industrial	113 569	6.46	0.06

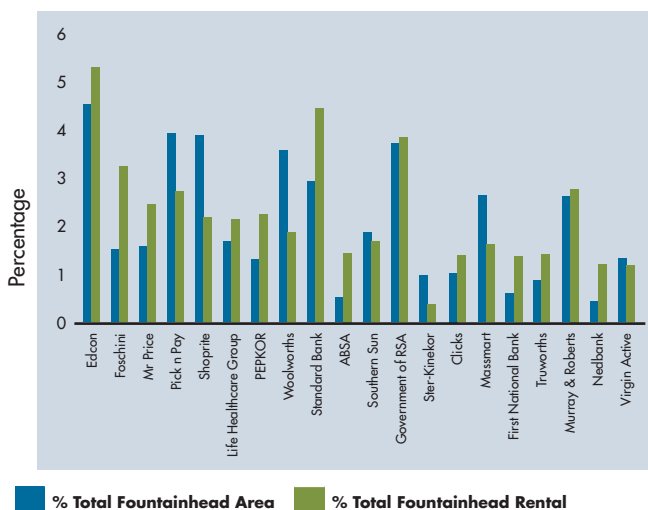
Electricity and water consumption is monitored on a continuous basis. Management have appointed Utility Administration Service CC (UAS) to administer the utility function. UAS has assisted in identifying any inefficiencies and also advising on various energy-saving initiatives undertaken. Various initiatives undertaken and planned are:

- the fitting of energy-efficient light bulbs;
- upgrading of air-conditioners to more energy-efficient units. An example of this is at N1 City Mall where a total of R5.8 million (Fountainhead share) was spent on an air-conditioner chiller upgrade and at Westgate Mall where a similar project is under way costing R10.5 million (Fountainhead share); and
- at The Brightwater Commons a water reticulation and water storage system that harness water run-off and rain water has been installed. This water is then used to irrigate the surrounding gardens.

During the 2011 financial year there have been no fines or non-monetary sanctions received for non-compliance with environmental laws and regulations.

## Exposure to major tenants

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



## Cash funds

A R2.7 billion facility is available from Standard Bank. Capital commitments at year-end were R1.5 billion. These will be funded by the sale of properties and from the approved loan facility. After the capital commitments Fountainhead will have an unutilised facility of R183 million.

## Units in issue

At year-end the number of units in issue was 1 162 709 748 (2010: 996 043 081).

## Trading statement

Notwithstanding the difficult trading conditions and the impact of the Blue Route Mall redevelopment, it is anticipated that there will be a small increase in distribution during the next financial year. This forecast has not been reviewed or reported on by Fountainhead Property Trust's auditor.

# MANAGER'S REPORT

## Fees

The service fee payable by Fountainhead to the Manager for the year was 0.5 percent per annum of the enterprise value of Fountainhead, which is total market capitalisation plus the aggregate amount of borrowings, calculated monthly on the average daily closing prices. The amount paid was R40.44 million (2010: R37.59 million).

During 2011 Fountainhead paid the following fees and commissions (excluding VAT):

To Broll Property Group for:

(ROOO)	2011	2010
Administration fees	32 426	31 669
Letting fees	7 567	4 230
	<b>39 993</b>	<b>35 899</b>

To the Motseng Property Services for:

(ROOO)	2011	2010
Administration fees	2 801	2 526
Letting fees	420	246
	<b>3 221</b>	<b>2 772</b>

To McWilliam Murray Realty for:

(ROOO)	2011	2010
Administration fees	1 219	1 060
Letting fees	566	251
	<b>1 785</b>	<b>1 311</b>

All fees have been paid on time and in accordance with the property management agreements.

Asset management fees of R30.33 million (2010: R28.195 million) were paid by the FPTML to Evening Star Trading 768 Proprietary Limited. Administration fees of R1.231 million (2010: R1.183 million) were paid by the Manager to Broll Property Group.

## Unitholder spread

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

Type of unitholder	Number of unitholders	% of securities held
Public	8 296	99.94
Non-public	6	0.06

The non-public unitholders are five Directors whose interests are disclosed in the corporate governance report, and the Manager whose holding is disclosed in note 2 to the annual financial statements of FPTML.

To the best of the Manager's knowledge, there are no unitholders who hold directly or indirectly a beneficial interest of at least

5 percent of Fountainhead's capital. As far as can be ascertained, the following groupings hold significant stakes:

Grouping	Holding
Old Mutual	>5%
Coronation Fund Managers	>5%
Stanlib	>5%
Public Investment Corporation	>5%

## Social and economic responsibility

Fountainhead considers the safety and security of the shoppers and tenants a priority. A strict policy is therefore in place whereby all security service providers together with the individual security personnel have to be registered and accredited by the Private Security Industry Regulatory Authority (PSIRA). Security personnel undergo first aid training and have regular emergency evacuation drills.

To ensure that the properties are safe for use, each building was assessed for compliance with the Occupational Health and Safety Act (OHSA) by an outsourced service provider. Going forward the properties will be assessed periodically by the service provider, in addition to the compliance checks performed by the property managers as part of their property management responsibilities. No fines or penalties were received for non-compliance regarding OHSA during the 2011 financial year.

Fountainhead, through the various shopping centres, has always played an active role in corporate social responsibility initiatives. The contributions range from providing complementary promotional court space to charitable organisations and fund-raising events. During the 2011 financial year approximately R1 million was raised on these initiatives. Some of the activities include:

- at N1 City Mall a charity day was held where charities get free promotion court space to raise funds from shoppers;
- at the Boulders where food parcels were collected for distribution to the homeless; and
- at Centurion Mall, N1 City Mall, The Brightwater Commons and Bryanston Shopping Centre where promotional court space was provided for the CANSA Shavathon fund-raising event.

Although Fountainhead itself does not have any employees, it has contributed towards creating various employment opportunities through its various property managers and service providers. Currently Fountainhead has also assisted in providing employment opportunities at the Blue Route Mall redevelopment construction site. The contractors engaged have employed approximately 1 200 workers in order to complete the project.

During the 2011 financial year no fines or penalties have been incurred for the contravention of any laws and regulations applicable to the business. In addition, no requests for information were lodged in terms of the Promotion of Access to Information Act, 2000.



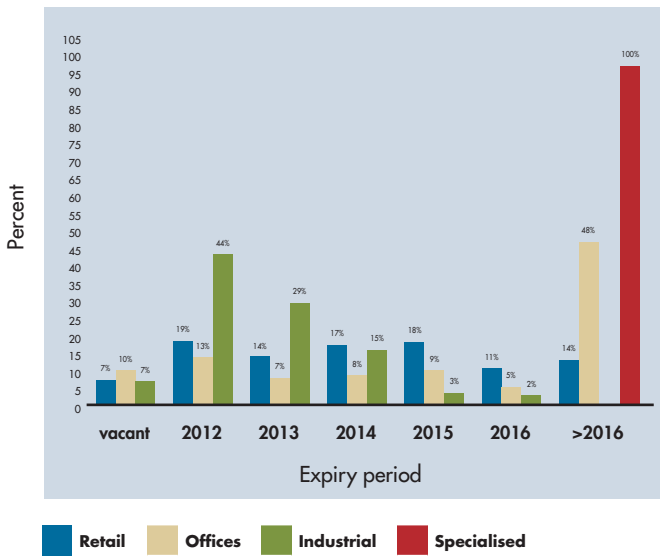
Constantia Kloof 3



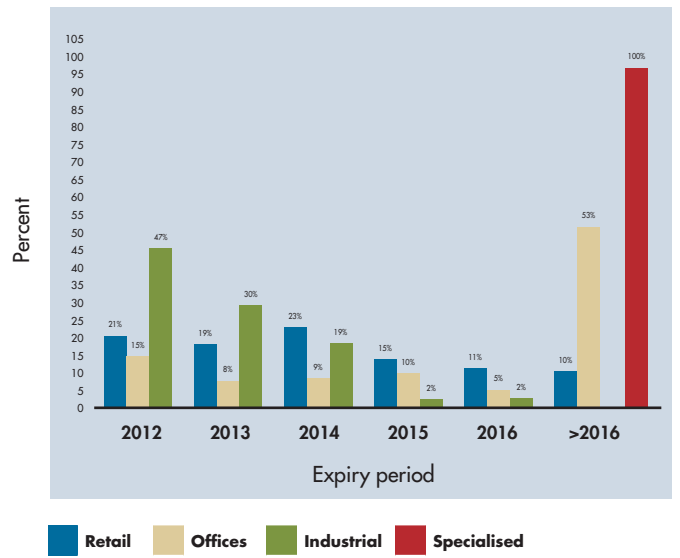
Centurion Mall

# SALIENT FEATURES

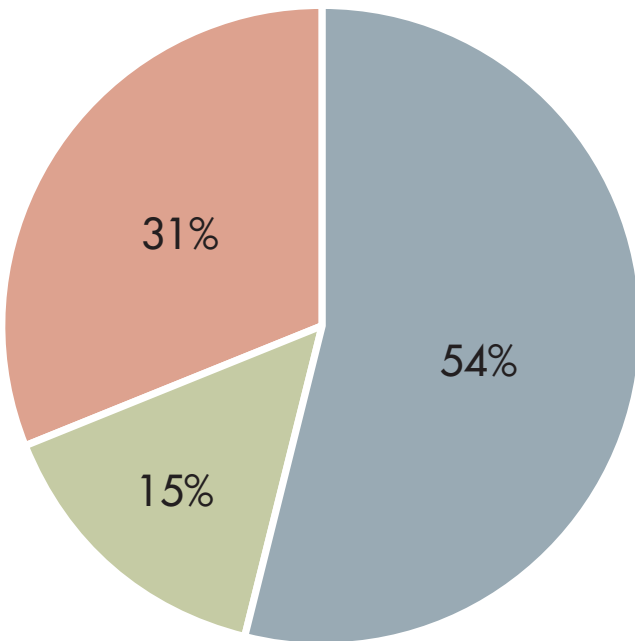
Lease Expiries by Rentable Area



Lease Expiries by Gross Rental



Tenant profile analysis



Category A Category B Category C

- 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, Ster-Kinekor Cinemas, Coricraft, Exclusive Books, Flight Centre, Incredible Connection, Nando's, 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

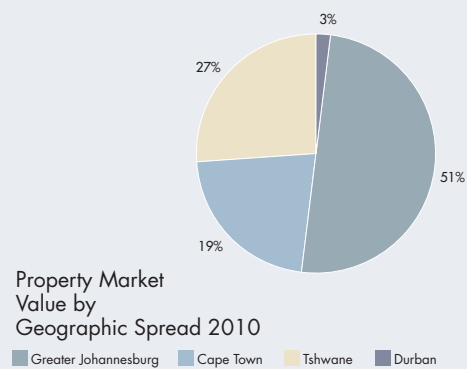
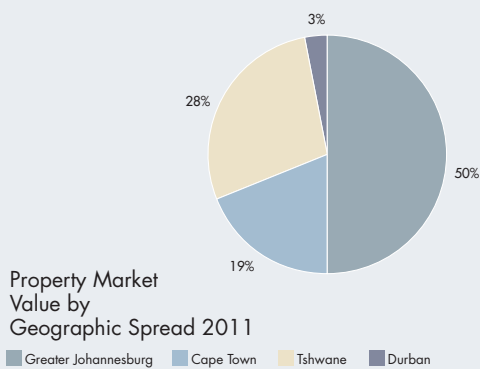
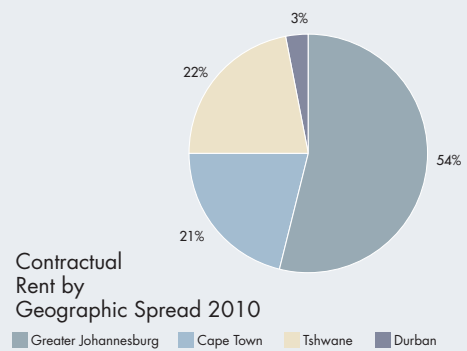
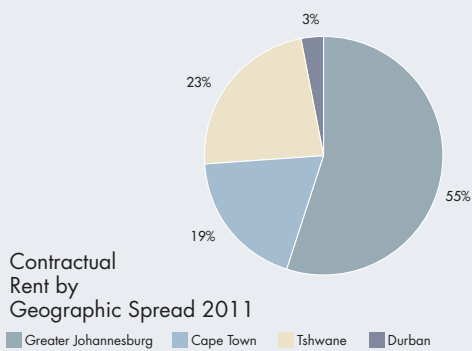
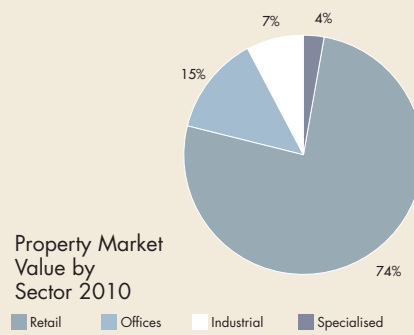
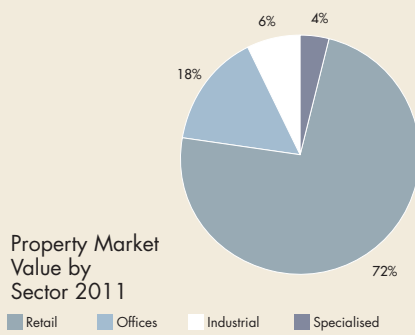
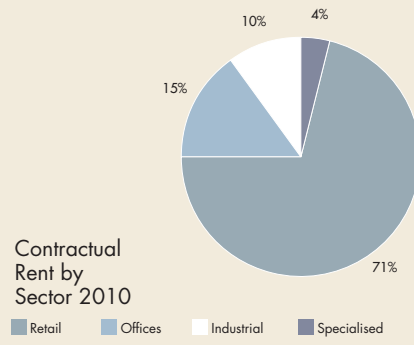
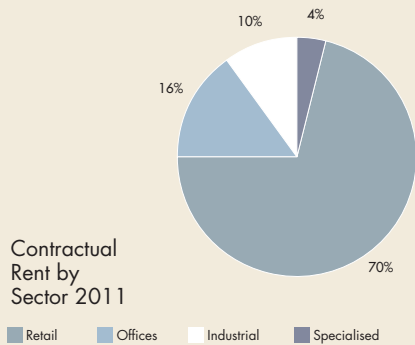
## SALIENT FEATURES

### Financial summary

(R000)	2011	2010	2009	2008	2007	2006	2005
Net contractual property income	695 823	653 768	609 482	551 712	477 872	421 977	374 260
Interest received	27 703	25 259	34 658	37 969	27 774	21 476	20 035
Interest paid	(82 098)	(98 102)	(90 277)	(74 713)	(40 942)	(23 602)	(20 758)
	641 428	580 925	553 863	514 968	464 704	419 851	373 537
Fountainhead audit fees, service charges and taxes	(44 982)	(42 265)	(35 921)	(35 871)	(37 202)	(31 394)	(24 880)
Income distributions	596 446	538 660	517 942	479 097	427 502	388 457	348 657
Distribution per unit (cents)	55.27	54.08	52.00	48.10	42.92	39.00	35.00
Weighted average number of units in issue during the period ('000)	1 075 039	996 043	996 043	996 043	996 043	996 043	996 043
Growth in distribution (%)	2.2	4.0	8.1	12.1	10.1	11.4	8.7

### Summary of stock exchange prices

2010/2011	Highest cents	Lowest cents	Last transaction cents	Volumes traded ('000)
October	730	672	684	19 708
November	750	664	672	40 966
December	700	668	700	26 072
January	700	631	652	15 355
February	675	616	640	20 477
March	654	600	618	28 280
April	727	618	660	11 997
May	670	622	631	68 414
June	698	610	644	40 729
July	733	642	645	18 070
August	711	622	675	18 715
September	685	643	670	22 482





Constantia Kloof 3



# 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	84 346	2 128 899	24.1		176	
Westgate Shopping Centre (41.32 percent)	Ontdekkers Road, Roodepoort	43 797	689 868	7.8		115	
The Boulders Shopping Centre	Old Pretoria Road, Midrand	48 632	542 498	6.2		110	
Benmore Gardens Shopping Centre	Benmore Road, Sandton	22 682	519 087	5.9		181	
Bryanston Shopping Centre	Hobart Road, Bryanston	11 634	231 228	2.6		184	
The Brightwater Commons	Republic Road, Randburg	42 325	182 960	2.1		87	
Southgate Mall (15.97 percent)	Rifle Range Road, Mondeor	11 024	173 053	2.0		158	
Rosebank Mews	173 Oxford Road, Rosebank	7 309	71 787	0.8		117	
Dekema Mall	Dekema Road, Wadeville, Germiston	4 637	25 848	0.3		75	
Southgate Value Market (19.01 percent)	Rifle Range Road, Mondeor	3 651	24 077	0.3		83	
<b>Western Cape</b>							
Kenilworth Centre	Doncaster Road, Kenilworth	46 862	665 242	7.5		120	
N1 City Mall (58 percent)	Louwtjie Rothman Street, Goodwood	37 241	577 171	6.5		135	
Blue Route Mall	Tokai Road, Tokai, Cape Town	39 520	516 260	5.9		92	
<b>Total retail</b>		<b>403 660</b>	<b>6 347 978</b>	<b>72.0</b>	<b>546.0</b>	<b>133</b>	<b>8.6%</b>
<b>OFFICE BLOCKS</b>							
<b>Gauteng</b>							
Douglas Roberts Centre	22 Skeen Boulevard, Bedfordview	19 166	271 664	3.1		97	
Constantia Kloof 3 (80 percent)	William Nicol North Street, Constantia Kloof	12 821	219 955	2.5		126	
300 Middel Street	300 Middel Street, Nieuw Muckleneuk	11 405	219 469	2.5		129	
Rosebank Corner	Jan Smuts Avenue, Rosebank	9 082	88 126	1.0		105	
Grayston Ridge Office Park	144 Katherine Street, Sandown, Sandton	10 048	86 706	1.0		128	
Dunkeld Office Park	6 North Road, Dunkeld West	5 501	69 373	0.8		127	
AMR Office Park	Concorde Road, Bedfordview	9 965	65 384	0.7		100	
2 Pybus Road	2 Pybus Road, Sandton	4 531	74 327	0.8		138	
Kimberley-Clark House	Leicester Road, Bedford Gardens	6 016	49 839	0.6		98	
240 Walker Street	Sunnyside, Pretoria	7 808	65 162	0.7		88	
260 Walker Street	Sunnyside, Pretoria	5 279	46 294	0.5		88	
The Ambridge	Vrede Avenue, Epsom Downs	4 459	33 076	0.4		87	
Yellowwood	Ballyclare Drive, Bryanston	2 149	31 729	0.4		96	
Sunridge (75 percent)	62 Wierda Road East, Wierda Valley	2 921	30 772	0.3		107	
Summit Park	439 Summit Road, Morningside	2 874	25 284	0.3		97	
Lakeside Place	Queen Street, Bruma	3 381	15 423	0.2		87	
256 Kent Avenue	256 Kent Avenue, Randburg	2 244	13 968	0.2		106	
Wierda Mews	41 Wierda Road, Wierda Valley	2 327	10 980	0.1		106	
RPA Centre	180 Smit Street, Fairland	1 716	8 780	0.1		68	
<b>KwaZulu-Natal</b>							
18 The Boulevard	Westway, Durban	5 008	78 086	0.9		138	
Delmat House	28 Jan Hofmeyr Road, Westville	3 916	38 635	0.4		125	
Essex Park	46 Essex Terrace, Berea West, Westville	4 343	28 611	0.3		92	
Kent House	1 Neptune Road, Berea West, Westville	2 371	17 267	0.2		100	
<b>Total offices</b>		<b>139 331</b>	<b>1 588 910</b>	<b>18.0</b>	<b>136.7</b>	<b>109</b>	<b>8.6%</b>

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>INDUSTRIAL</b>							
<b>Gauteng</b>							
Mifa Industrial Park	399 George Street, cnr 16th Road, Midrand	34 002	123 731	1.4		43	
Strijdom Industrial Park	Hammer Avenue, Strijdompark, Randburg	25 037	101 049	1.1		48	
Supreme Industrial Park	Klipriviersberg Road, Steeledale	31 061	58 117	0.7		40	
Nashua House	Old Pretoria Road, Midrand	7 551	50 544	0.6		63	
Jupiter Ext. 1	Nasmith Road, Jupiter Ext. 1, Germiston	10 540	30 146	0.3		35	
Vodacom Midrand	142 16th Road, Midrand	4 519	23 509	0.3		60	
Delta	Old Pretoria Road, Midrand	1 504	13 624	0.2		140	
Gateway Industrial Park	Graniet Street, Jet Park	4 805	11 774	0.1		40	
Dismed House	733/747 16th Road, Midrand	2 871	10 778	0.1		49	
Strike House	Richards Drive, Halfway House	1 880	6 452	0.1		57	
Canberra Industrial Park	Derick Coetzee Street, Jet Park	2 621	7 272	0.1		34	
The House Of Rubber	Crusher Road, Crown Extension	2 266	6 522	0.1		37	
Jay Park	Piet Bekker Street, Jet Park	2 264	5 376	0.1		36	
Humsa House	Graniet Street, Jet Park	2 113	6 254	0.1		27	
Monit House	Van Der Bijl Street, Meadowdale	1 985	5 654	0.1		40	
Astro Place	Van Der Bijl Street, Meadowdale	1 876	5 413	0.1		40	
Stacey Lee Industrial Park	Derick Coetzee Street, Jet Park	1 876	5 526	0.1		38	
Mercury Park	Piet Bekker Street, Jet Park	2 105	5 016	0.1		37	
Lifetime House	Kelly Road, Jet Park	1 799	4 892	0.0		47	
Orion Place	Piet Bekker Street, Jet Park	1 519	3 720	0.0		41	
Dale House	Cnr Bell & Fleming Streets, Meadowdale	1 308	4 061	0.0		36	
Ventura Industrial Park	Derick Coetzee Street, Jet Park	1 402	3 939	0.0		42	
Hydra Park	Piet Bekker Street, Jet Park	1 643	3 703	0.0		35	
Gail Industrial Park	Patrick Road, Jet Park	1 504	3 438	0.0		34	
Medsave House	Fabriek Street, Strijdom Park	2 113	2 446	0.0		25	
Precision House	Precision Road, Kya Sand	604	1 472	0.0		41	
<b>KwaZulu-Natal</b>							
Murrayfield	Prospecton Road, Prospecton	16 869	44 147	0.5		47	
4 Walter Place	Watervalpark, Mayville	8 242	22 537	0.3		36	
<b>Total industrial</b>		<b>177 879</b>	<b>571 112</b>	<b>6.5</b>	<b>49.1</b>	<b>45</b>	<b>9.3%</b>
<b>SPECIALISED</b>							
<b>Gauteng</b>							
Bedford Gardens Private Hospital	Leicester Road, Bedford Gardens	12 817	189 532	2.2		118	
Southern Sun O.R. Tambo International Airport	Kempton Park	14 152	117 785	1.3		84	
<b>Total specialised</b>		<b>26 969</b>	<b>307 317</b>	<b>3.5</b>	<b>26.4</b>	<b>100</b>	<b>7.9%</b>
<b>Total property portfolio of Fountainhead</b>		<b>747 839</b>	<b>8 815 317</b>	<b>100</b>	<b>758.2</b>	<b>108</b>	<b>8.7%</b>

The average annualised property historical yield based on valuations as at 30 September 2011 is 7%.

# STATEMENT OF FINANCIAL POSITION

as at 30 September 2011

(R000)	Notes	2011	2010
<b>ASSETS</b>			
<b>Property assets</b>		<b>8 815 317</b>	<b>7 940 044</b>
Investment properties	2	8 529 779	7 677 024
Straight-line lease accrual	3	285 538	263 020
<b>Other current assets</b>		<b>454 562</b>	<b>397 501</b>
Trade and other receivables	4	70 453	53 874
Cash and cash equivalents	5	384 109	343 627
<b>Total assets</b>		<b>9 269 879</b>	<b>8 337 545</b>
<b>UNITHOLDERS' FUNDS AND LIABILITIES</b>			
<b>Unitholders' funds</b>		<b>7 776 713</b>	<b>6 719 106</b>
Capital of the fund	6	2 874 030	1 933 354
Capital reserve		574 903	513 837
Fair value reserve		4 042 182	4 008 835
Retained earnings		285 598	263 080
<b>Non-current liabilities</b>			
Interest-bearing liability	7	355 940	1 225 000
<b>Current liabilities</b>		<b>1 137 226</b>	<b>393 439</b>
Trade and other payables		123 783	126 201
Interest-bearing liability	7	693 000	–
Unitholders for distribution		320 443	267 238
<b>Total unitholders' funds and liabilities</b>		<b>9 269 879</b>	<b>8 337 545</b>

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2011

(R000)	Notes	2011	2010
<b>Revenue</b>		<b>902 263</b>	<b>845 963</b>
Contractual rental income		879 745	831 482
Straightline lease adjustment	2	22 518	14 481
<b>Expenses</b>		<b>(228 904)</b>	<b>(219 979)</b>
Administrative expenses	8	(44 982)	(42 265)
Property operating expenses	8	(183 922)	(177 714)
<b>Operating profit before net finance cost and fair value adjustments</b>		<b>673 359</b>	<b>625 984</b>
<b>Net finance costs</b>		<b>(54 395)</b>	<b>(72 843)</b>
Interest received		27 703	25 259
Interest paid		(82 098)	(98 102)
Profit on disposal of investment property	9	13 869	1 932
Fair value adjustments to investment properties	2	80 544	(5 725)
<b>Profit and total comprehensive income for the year</b>		<b>713 377</b>	<b>549 348</b>
Income distribution per unit (cents)	12	55.27	54.08
Basic earnings per unit (cents)	13	66.36	55.15
Diluted earnings per unit (cents)	13	66.36	55.15

# STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

for the year ended 30 September 2011

(R000)	Capital of the fund	Capital reserve	Fair value reserve	Retained earnings	Total unitholders' funds
Balance as at 1 October 2009	1 933 354	501 906	4 024 559	248 599	6 708 418
<b>Total comprehensive income for the year</b>					
<b>Profit and total comprehensive income for the year</b>	–	–	–	549 348	549 348
<b>Transactions with unitholders, recorded directly in equity</b>					
Profit and fair value reserve realised on sale of property transferred to capital reserve	–	11 931	(9 999)	(1 932)	–
Fair value adjustment on investment properties transferred to fair value reserve	–	–	(5 725)	5 725	–
Income distributions	–	–	–	(538 660)	(538 660)
<b>Total transaction with unitholders</b>	–	11 931	(15 724)	(534 867)	(538 660)
<b>Balance at 30 September 2010</b>	1 933 354	513 837	4 008 835	263 080	6 719 106
<b>Total comprehensive income for the year</b>					
<b>Profit and total comprehensive income for the year</b>	–	–	–	713 377	713 377
<b>Transactions with unitholders, recorded directly in equity</b>					
Profit and fair value reserve realised on sale of property transferred to capital reserve	–	61 066	(47 197)	(13 869)	–
Fair value adjustment on investment properties transferred to fair value reserve	–	–	80 544	(80 544)	–
Issue of units	953 817	–	–	46 183	1 000 000
Rights offer expenses	(13 141)	–	–	–	(13 141)
Income distributions	–	–	–	(642 629)	(642 629)
<b>Total transactions with unitholders</b>	940 676	61 066	33 347	(690 859)	344 230
<b>Balance at 30 September 2011</b>	2 874 030	574 903	4 042 182	285 598	7 776 713

# STATEMENT OF CASH FLOWS

for the year ended 30 September 2011

(R000)	Notes	2011	2010
<b>Cash effects from operating activities</b>			
Profit for the year		713 377	549 348
Adjustments for:			
Straight-line lease adjustment		(22 518)	(14 481)
Interest received		(27 703)	(25 259)
Interest paid		82 098	98 102
Profit on disposal of investment property		(13 869)	(1 932)
Fair value adjustments to investment properties		(80 544)	5 725
<b>Operating profit before changes in working capital</b>		<b>650 841</b>	<b>611 503</b>
Trade and other receivables increased		(16 579)	(7 332)
Trade and other payables (decreased)/increased		(2 418)	10 074
<b>Cash generated from operations</b>		<b>631 844</b>	<b>614 245</b>
Interest received		27 703	25 259
Interest paid		(82 098)	(98 102)
Income distributions	11	(589 424)	(533 381)
<b>Cash (outflows)/inflows from operating activities</b>		<b>(11 975)</b>	<b>8 021</b>
<b>Cash effects from investing activities</b>			
Additions to investment properties		(870 730)	(326 266)
Proceeds from disposal of investment properties		112 388	18 000
<b>Cash outflows from investing activities</b>		<b>(758 342)</b>	<b>(308 266)</b>
<b>Cash effects from financing activities</b>			
Long-term loan raised		355 940	310 000
Long-term loan paid		(532 000)	–
Issue of units		1 000 000	–
Rights offer expenses		(13 141)	–
<b>Cash inflows from financing activities</b>		<b>810 799</b>	<b>310 000</b>
Net increase in cash and cash equivalents		40 482	9 755
Cash and cash equivalents at 1 October		343 627	333 872
<b>Cash and cash equivalents at 30 September</b>	5	<b>384 109</b>	<b>343 627</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 1. Accounting policies

Fountainhead Property Trust (the Trust) is a Collective Investment Scheme in Property domiciled in South Africa. The financial statements were authorised for issue by the Directors of Fountainhead Property Trust Management Limited on 2 November 2011.

### 1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC 500 series issued by the Accounting Practices Board, the requirements of the Collective Investment Schemes Control Act of South Africa, and the JSE Limited Listings Requirements.

### 1.2 Basis of preparation

The financial statements are presented in Rands, rounded to nearest thousand, which is the Trust's functional currency. 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, liabilities, income and expenses. The estimates and underlying 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

### 1.3 Investment properties

Investment properties (including partially held investment properties) are properties which are held for the purpose of earning rental income and/or for capital appreciation.

Properties are stated initially at cost on acquisition, which comprises the purchase price and directly attributable expenditure. Property interests held under an operating lease are accounted for as investment property, using the fair value model. 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 within equity as they are not available for distribution.

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

Realised gains or losses on the disposal of investment properties are recognised in profit or loss for the year and are calculated as the difference between the net disposal proceeds 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.

Partially held investment properties is treated as a jointly controlled asset as the co-owners jointly control the property.

The following is therefore recognised in the annual financial statements:

- the undivided share of the jointly controlled assets, classified according to the nature of the assets;
- any liabilities incurred;
- the undivided share of any liabilities incurred jointly with the other co-owners in relation to the partially held investment property;
- any income from the sale or use of its undivided share of the output of the partially held investment property, together with its share of any expenses incurred by the partially held investment property; and
- any expenses that it has incurred in respect of the interest held in the partially held investment property.

#### 1.4 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Trust considers evidence of impairment for loans and receivables at both specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 1.5 Financial instruments

A financial instrument is recognised when the Trust becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Trust's contractual rights to the cash flows from the financial assets expire or when the Trust transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. The Trust derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

##### Measurement

Financial instruments are initially measured at fair value, which includes transaction costs. 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 method after deducting accumulated impairment losses. Trade and other receivables form part of the loans and receivables category.

##### – *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 amortised cost. Cash and cash equivalents form part of the loans and receivables category.

##### – *Trade and other payables and unitholders for distribution*

Trade and other payables and unitholders for distribution are carried at amortised cost, using the effective interest method.

##### – *Interest-bearing loans*

Interest-bearing borrowings are stated at amortised cost using the effective interest method, with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

##### Set-off

Financial assets and financial liabilities are off-set and the net amount reported in the statement of financial position when the Trust has a legally 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.

#### 1.6 Capital of the fund

Units issued are classified as capital of the fund. Incremental costs directly attributable to the issue of units are recognised as a deduction from capital of the fund.

#### 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 Fair value reserve

All unrealised surpluses/deficits arising on the fair value measurement of investment properties are transferred to the fair value reserve and are not available for distribution.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 1.9 Revenue

Rental income from investment properties comprises gross rental and is recognised in profit or loss 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 Property operating expenses

Property operating expenses include all expenses directly incurred in the daily operations of the investment property. It includes property management fees, cleaning and security costs, repairs and maintenance, letting costs, rates charges, as well as utility costs incurred net of any recovery from tenants.

## 1.11 Interest income

Interest income is recognised as it accrues in profit or loss using the effective interest method.

## 1.12 Interest expense

Interest expense is recognised as it accrues in profit or loss using the effective interest method.

## 1.13 Borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 October 2009, the Trust capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

## 1.14 Leases

The Trust is party to numerous contracts as the lessor of property. All leases are operating leases, where the significant risks and rewards of ownership are that of the Trust. Operating lease rentals with fixed escalation clauses are recognised in profit or loss on a straight-line basis over the lease term.

## 1.15 Basic and diluted earnings per unit

The Trust presents basic earnings per unit calculated by dividing the profit or loss attributable to unitholders of the Trust by the weighted average number of units outstanding during the period. Diluted earnings per unit are calculated on the same basis.

## 1.16 Segmental information

The Trust consists of investment properties. The Trust earns revenue in the form of rentals from tenants of these investment properties. The Trust is organised into five major business 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 an hotel; and
- Corporate segment comprising all assets and expenses not directly attributable to the other segments.

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

In addition, the geographical location of the properties has been identified as an important requirement 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 statement of financial position.

Segment 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)	2011	2010
<b>2. Investment properties</b>		
Independent property valuations	8 815 317	7 940 044
Straight-line lease accrual	(285 538)	(263 020)
<b>Investment properties at fair value</b>	<b>8 529 779</b>	<b>7 677 024</b>
<b>Movement for the year</b>		
Balance at 1 October:	7 677 024	7 372 551
Additions and costs capitalised	855 920	326 266
Interest capitalised	14 810	–
Carrying amount of investment properties disposed	(98 519)	(16 068)
Fair value adjustments	80 544	(5 725)
Gain on fair value adjustment of investment properties	103 062	8 756
Change in straight-line lease accrual	(22 518)	(14 481)
Balance at 30 September	<b>8 529 779</b>	<b>7 677 024</b>
<p>With the exception of six investment properties which are partially held – (see property portfolio on pages 32 and 33), all other investment properties are 100 percent held by the Trust.</p> <p>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.</p> <p>Partially held investment properties are reflected at the proportionate ownership percentage of fair value.</p> <p>The investment properties were independently valued on 30 September 2011 by E G Rode and K Scott, registered valuers with Rode &amp; Associates CC, both members of the South African Institute of Valuers.</p> <p>The market valuation methodology is based on capitalising the first year's market-related, normalised net operating income 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.</p>		
<b>3. Straight-line lease accrual</b>		
Straight-line lease accrual	285 538	263 020
<b>4. Trade and other receivables</b>		
Rent debtors	40 896	33 668
Prepayments	11 669	6 909
Other debtors	17 888	13 297
	<b>70 453</b>	<b>53 874</b>
<b>5. Cash and cash equivalents</b>		
Deposits at banks	141 109	22 627
Deposits in access bond (see note 7)	243 000	321 000
	<b>384 109</b>	<b>343 627</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

(R000)	2011	2010
<b>6. Capital of the fund</b>		
Balance at 30 September	2 874 030	1 933 354
Units in issue at 30 September 2011 – 1 162 709 748 (2010: 996 043 081).		
The capital of the fund is governed by the Trust Deed which can be viewed upon request at the registered office.		
The Trust undertook a R1 billion rights offer in 2011. As part of the rights offer, 1 66 666 667 new units were issued at an offer price of 600 cents. Included in the offer price was a prepaid distribution element of 27.71 cents, which enabled unitholders to participate in the interim distribution declared. Rights offer expenses of R13.1 million was incurred and netted off to the capital raised.		
<b>7. Interest-bearing liability</b>		
Current portion	693 000	–
Non-current portion	355 940	1 225 000
The Standard Bank of South Africa Limited	1 048 940	1 225 000
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 interest-bearing liability comprises:		
Term Loan A – a R750 000 000 interest only facility at a rate of prime less 2.3 percent payable by 24 June 2012. A total of R243 000 000 of this facility has been utilised.		
Term Loan B – a R250 000 000 interest only facility fixed at a rate of 11.07 percent until 15 February 2013. This facility is payable by 24 June 2012, with the fixed interest rate transferable to any subsequent facility.		
Term Loan C – a R200 000 000 interest only facility fixed at a rate of 10.72 percent until 22 July 2012. This facility is payable by 22 July 2012.		
Term loan D – the Blue Route Mall Development Loan Facility – a R935 000 000 interest only facility floating at a rate of 1 month JIBAR + 2.42 percent until 31 May 2015. This facility is payable by 31 May 2015. To date R355 940 494 has been drawn from the facility. R350 000 000 of the facility has been fixed at 8.42 percent until 31 May 2015. Interest payments will be capitalised on this facility until the development is completed.		
Term Loan E – a R600 000 000 interest only facility floating at a rate of 1 month JIBAR + 2.25 percent until 28 February 2016. This facility has not been accessed as yet.		
The Standard Bank of South Africa Limited has registered a first continuing covering mortgage bond over Centurion Mall, The Boulders Shopping Centre, Blue Route Mall, Kenilworth Centre, Benmore Gardens and N1 City Mall for a total amount of R3.02 billion, and a second continuing covering mortgage bond over Kenilworth Centre and Blue Route Mall totalling R600 million.		
<b>8. Income and expenditure</b>		
<b>8.1 Administrative expenses include:</b>		
Audit fees (internal and external audit)	1 471	1 404
Service fee paid to the Manager	40 442	37 593
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 borrowings of the Trust. The market capitalisation is based on the average daily closing price of the units as quoted on the JSE.		
<b>8.2 Property operating expenses include:</b>		
Property management fees	36 446	35 255
Repairs and maintenance	28 581	28 004

(R000)	2011	2010	
<b>9. Profit on disposal of investment property</b>			
Profit on disposal of investment property	13 869	1 932	
The following investment properties were disposed of by the Trust during the year:			
	Carrying value	Proceeds	Profit on disposal
<b>2011</b>			
Northmead Mall	50 264	50 688	424
Human Rights House	28 661	38 500	9 839
22 Wellington Road	16 512	19 500	2 988
Zero Park	3 082	3 700	618
	<b>98 519</b>	<b>112 388</b>	<b>13 869</b>
<b>2010</b>			
7 Benbow Avenue	16 068	18 000	1 932
	<b>16 068</b>	<b>18 000</b>	<b>1 932</b>

## 10. Taxation

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.

	2011	2010
<b>11. Notes to the cash flow statement</b>		
<b>Income distributions</b>		
Amounts unpaid at 1 October	(267 238)	(261 959)
Distributable income for the year	(642 629)	(538 660)
Amounts unpaid at 30 September	320 443	267 238
	<b>(589 424)</b>	<b>(533 381)</b>
<b>12. Income distribution per unit</b>		
Income distribution per unit is calculated based on distributable earnings of R642.6 million for the year ended 30 September 2011 (2010: R538.6 million) and on a weighted average number of units in issue of 1 162 709 748 (2010: 996 043 081).		
<b>Distribution income reconciliation</b>		
Profit for year	713 377	549 348
Straight-line lease adjustment	(22 518)	(14 481)
Profit on disposal of investment property	(13 869)	(1 932)
Fair value adjustments to investment properties	(80 544)	5 725
Rights offer prepaid distribution	46 183	–
Distribution income	<b>642 629</b>	<b>538 660</b>
<b>Income distribution</b>		
Interim distribution	276 003	271 422
Rights offer prepaid distribution	46 183	0
Final distribution	320 443	267 238
	<b>642 629</b>	<b>538 660</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

(R000)	2011	2010
<b>13. Basic, diluted and headline earnings per unit</b>		
Basic and diluted earnings per unit is calculated based on earnings of R713.3 million for the year ended 30 September 2011 (2010: R549.3 million) and on a weighted average number of units in issue of 1 075 038 515 (2010: 996 043 081).		
Headline earnings per unit is calculated based on earnings of R618.9 million for the year ended 30 September 2011 (2010: R553.1 million) and on a weighted average number of units in issue of 1 075 038 515 (2010: 996 043 081).		
<b>Headline earnings reconciliation</b>		
Profit for the year	713 377	549 348
Profit on disposal of investment property	(13 869)	(1 932)
Fair value adjustments to investment properties	(80 544)	5 725
Headline earnings	<b>618 964</b>	<b>553 141</b>
<b>14. Operating lease rentals</b>		
Leases as lessor:		
The Trust leases out its investment property held under operating leases (see note 2).		
Lease agreements vary in length and escalation rates. Some lease agreements allow the tenant the option to renew the lease once expired. In addition certain leases have a turnover clause included, meaning that additional rentals may be received if the tenants' turnover exceeds a certain agreed upon threshold.		
As at 30 September 2011, the Trust had contracted with tenants for the following future minimum lease rentals:		
Within one year	741 917	674 938
In the second to fifth years inclusive	1 785 459	1 465 127
After five years	978 709	708 666
Total future minimum lease rentals	<b>3 506 085</b>	<b>2 848 731</b>
<b>15. Capital commitments</b>		
As at 30 September 2011 the capital contractual commitments were R1 903 million (2010: R878 million). Funds to meet these commitments can be provided by the Trust out of existing approved loan facilities. Included in capital commitments is the acquisition of a 25% undivided share in Centurion Mall. The property has not transferred to the Trust as at reporting date. In addition, the Trust has a signed purchase agreement to acquire Access Park. The Trust has the option of settling the payment consideration by issuing equity. The acquisition is subject to various conditions precedent.		
<b>16. Management company</b>		
The management company, Fountainhead Property Trust Management Limited, is equally owned by The Standard Bank Properties Proprietary Limited and the Liberty Group Limited.		
<b>17. Borrowing powers</b>		
In terms of its Trust Deed, the Trust may borrow up to 40 percent (2010: 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 2011 were R1 049 million (2010: R1 225 million) which is 12 percent (2010: 15 percent) of the value of the property portfolio.		
<b>18. Contingent liabilities</b>		
<b>Guarantees</b>		
The Trust has provided bank guarantees in lieu of deposits for municipal services and electricity to the value of R5.02 million (2010: R5.2 million).		

(R000)

2011

2010

## 19. Financial risk management

The Trust's financial instruments consist mainly of deposits with banks, loans from banks, trade and other receivables and trade and other payables. 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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Trust.

The Trust's financial assets that are subject to credit risk are cash resources and trade and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Trade and other receivables	70 453	53 874
Cash and cash equivalents	384 109	343 627
	<b>454 562</b>	<b>397 501</b>

Credit risk attached to the Trust's cash resources is minimised by using reputable financial institutions.

The exposure to credit risk is mainly in respect of tenants and is influenced by the individual characteristics of each tenant. The widespread tenant base with no single major counterparty reduces credit risk. Geographically, credit risk is concentrated within the regions where the Trust operates, being Gauteng, Western Cape and KwaZulu-Natal. Management has established a credit policy under which each new tenant is analysed individually for creditworthiness before the standard payment terms and conditions are offered which include, in the majority of cases, the provision of a deposit of at least one month's rental. When available, the credit review includes external ratings. Impairment losses have been recorded for those debts whose recovery was not reasonably assured at year-end. The Trust establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are specific loss component that relates to individually significant exposures. The credit quality of trade and other receivables that are current and not impaired is deemed adequate.

### Rental and utilities receivable

The ageing of rental and utilities receivable at reporting date was:

Current*	42 267	34 569
Past due 0 – 30 days	1 056	1 440
Past due 31 – 120 days	1 536	3 330
Past due 120+ days	1 307	816
Total	<b>46 166</b>	<b>40 155</b>

\* Included in current is September rentals of R3 million (2010: R4 million).

The movement in allowance for credit losses was as follows:

Balance at 1 October	(6 487)	(7 421)
Impairment loss recognised	(2 124)	(2 737)
Amounts written off as uncollectible	3 341	3 671
Balance at 30 September	<b>(5 270)</b>	<b>(6 487)</b>

The ageing of the doubtful debt as follows:

Current	(2 021)	(1 872)
Past due 0 – 30 days	(898)	(1 034)
Past due 31 – 120 days	(1 316)	(2 866)
Past due 120+ days	(1 035)	(715)
Total	<b>(5 270)</b>	<b>(6 487)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

(R000)

2011

2010

## 19. Financial risk management (continued)

### Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due. Cash flows are monitored on a weekly basis to ensure that cash resources are adequate to meet funding requirements.

Currently the Trust's current liabilities exceed current assets as R693 million of borrowings has been classified as short term due to it being payable within the next twelve months. This is a temporary situation as new facilities will be negotiated with the bank. Based on preliminary discussions with the bank, the risk of new facilities not being granted is minimal due to the low gearing of the Trust.

The following table details the Trust's contractual maturities of financial liabilities, excluding interest payments. The table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date that the Trust may be required to pay.

Between 0 – 12 months

– Unitholders for distribution	320 443	267 238
– Trade and other payables	123 783	126 201
– Interest-bearing liability	693 000	–

Between 1 and 5 years

– Interest-bearing liability	355 940	1 225 000
	<b>1 493 166</b>	<b>1 618 439</b>

### Interest rate risk

Interest rate movements impact on the net cost of the Trust's short-term cash investments and interest-bearing borrowings.

The risk is managed by the Trust by maintaining an appropriate mix between fixed and floating rate borrowings, and investing surplus cash at negotiated rates.

At reporting date the interest rate profile of the Trust's interest-bearing financial instruments were as follows:

Fixed rate instruments

– Interest-bearing liabilities	800 000	450 000
--------------------------------	---------	---------

Variable rate instruments

– Cash and cash equivalents	384 109	343 627
– Interest-bearing liabilities	248 940	775 000

### Interest rate sensitivity analysis

The sensitivity analysis is based on the exposure to interest rates at reporting date. For floating rate liabilities, the analysis assumes that the amount of liability outstanding at the reporting date was outstanding for the whole year.

For floating rate assets, the analysis assumes that the asset existing at the reporting date existed for the whole year.

A 50 basis point increase or decrease is used when reporting interest rate internally to key management personnel and represents management's reasonable assessment of the possible change in interest rates.

For floating rate liabilities, if interest rates were 50 basis points higher/lower and all other variables were constant, the Trust's net profit for the year ended 30 September 2011 would decrease/increase by R1 239 998 (2010: decrease/increase by R3 875 000).

For floating rate assets, if interest rates were 50 basis points higher/lower and all other variables were constant, the Trust's net profit for the year ended 30 September 2011 would increase/decrease by R1 889 650 (2010: increase/decrease by R1 718 135).

The analysis was performed on the same basis in 2010.

The Trust does not account for any fixed rate financial liabilities as fair value through profit or loss. Therefore a change in interest income at reporting date would not affect profit or loss.

(R000)

2011

2010

## 19. Financial risk management (continued)

### Capital management

The capital structure of the Trust is governed by the Trust Deed. The allowed borrowing capacity is 40 percent (2010: 30 percent) of the value of the underlying asset comprising the property portfolio.

Value of property portfolio	8 815 317	7 940 044
40 percent (2010: 30 percent) thereof	3 526 127	2 382 013
Total borrowings	(1 048 940)	(1 225 000)
Capital commitments	(1 903 000)	(878 000)
Unutilised borrowing capacity	574 187	279 013

As from 1 October 2010 the maximum allowed borrowing capacity increased to 40 percent of the value of the underlying asset comprising the property portfolio.

## 20. Related parties

All transactions with related parties were concluded on an arm's length basis.

Related parties with whom the Trust transacted during the year:

### Fountainhead Property Trust Management Limited

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	40 442	37 593
– Service fee payable to Fountainhead Property Trust Management Limited	(4 161)	(3 775)
– Proceeds from rights offer	(252)	–

### FHP Managers Proprietary Limited

Relationship: Fellow subsidiary of the Manager's shareholder, Standard Bank Properties Proprietary Limited.

Related party transaction for the year:

– Purchase of Constantia Kloof 3 property	204 000	–
---	---------	---

### The Standard Bank of South Africa Limited

Relationship: Fellow subsidiary of the Manager's shareholder, Standard Bank Properties Proprietary Limited.

Related party transactions for the year:

– Loan (refer to note 7)	(1 048 940)	(1 225 000)
– Interest on loan	82 098	98 102
– Interest income	(26 232)	(23 603)
– Bank charges	305	323
– Gross rent received	(22 126)	(16 603)
– Sponsor fee	120	100
– Corporate adviser fee for rights offer	2 462	–
– Commitment fee paid for rights offer	547	–
– Proceeds from rights offer	(36 456)	–

### Absa Bank Limited

Relationship: Trustee of Fountainhead Property Trust

Related party transactions for the year

– Interest income	(10)	(12)
– Bank charges	44	36
– Trustee fees	552	545
– Gross rent received	(12 141)	(12 240)

### W M Kirchmann

Relationship: Director of the Manager

Related party transaction for the year

– Proceeds from rights offer	(108)	–
------------------------------	-------	---

### S Shaw-Taylor

Relationship: Director of the Manager

Related party transaction for the year

– Proceeds from rights offer	(96)	–
------------------------------	------	---

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 21. New accounting statements and interpretations issued and not yet effective

The following Standards and Interpretations, which have been issued but are not yet effective, are applicable to the Trust. These Standards and Interpretations have not been applied in these financial statements. The Trust intends to comply with these Standards from the effective dates. The impact on the financial statements has not yet been determined.

### **IFRS 9 – *Financial Instruments***

The International Accounting Standards Board (IASB) has issued IFRS 9 – *Financial Instruments*, which is the first step in its project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities. Changes to embedded derivatives, which are no longer separated from hybrid contracts that have a financial asset host, are not relevant to the Trust, due to the fact that there are no embedded derivatives. The standard will be adopted for the first time for the 30 September 2014 financial year-end.

### **IAS 24 – *Related Parties***

The amended Standard requires commitments, as well as the nature of the relationship between related parties to be identified and disclosed. The amended Standard gives clarity to the related party definition and other terms in the Standard. The Standard will be effective for the Trust for the financial reporting period ending 30 September 2012.

### **IFRS 7 – *Financial Instruments: Disclosures (amendments)***

The amendments are effective for reporting the Trust's financial reporting period ending 30 September 2012 and add an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate the Trust's exposure to risks arising from financial instruments.

### **IFRS 13 – *Fair Value Measurement***

IFRS 13 will be adopted by the Trust for the first time for its financial reporting period ending 30 September 2014. IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements.

### **Improvements to Standards and Interpretations not yet effective**

Improvements have been made to Standards and Interpretations in issue not yet effective per the improvements to IFRS 2010 Standards and Improvements to IFRS 2011 Standards with an effective date for the Trust of 1 October 2011 or 1 October 2012. Management have considered all the improvements and have concluded that they will have either no or minimal impact.

## 22. Events after reporting period

The Trust sold one of its industrial properties, Medsave House, for a net selling price of R2 445 964. The transfer was effective 3 October 2011.

(R000)

	Retail	Office	Industrial	Specialised	Corporate	Total
<b>23. Segmental information</b>						
<b>23.1 Business segment</b>						
<b>2011</b>						
<b>Segment revenue</b>						
Contractual rental income	620 816	142 788	85 187	30 954	–	879 745
StraightLine rental adjustment	6 246	13 978	(1 418)	3 712	–	22 518
Total revenue	627 062	156 766	83 769	34 666	–	902 263
<b>Segment result</b>						
Operating profit/(loss)	487 202	130 228	66 374	34 408	(44 853)	673 359
Interest received	1 079	223	239	–	26 162	27 703
Interest paid	–	–	–	–	(82 098)	(82 098)
Profit on disposal of investment property	424	12 827	618	–	–	13 869
Fair value adjustments to investment properties	98 025	(17 752)	(15 310)	15 581	–	80 544
	586 730	125 526	51 921	49 989	(100 789)	713 377
<b>Other information</b>						
<b>Reportable segment assets</b>						
Property assets	6 347 978	1 588 910	571 112	307 317	–	8 815 317
Trade and other receivables	49 685	8 552	6 542	–	5 674	70 453
Cash and cash equivalents	3 667	–	–	–	380 442	384 109
Total assets	6 401 330	1 597 462	577 654	307 317	386 116	9 269 879
<b>Reportable segment liabilities</b>						
Interest-bearing liabilities	–	–	–	–	1 048 940	1 048 940
Trade and other payables	56 479	25 446	15 819	398	25 641	123 783
Unitholders for distribution	–	–	–	–	320 443	320 443
Total liabilities	56 479	25 446	15 819	398	1 395 024	1 493 166
Capital expenditure	410 319	459 983	428	–	–	870 730
<b>2010</b>						
<b>Business segment</b>						
<b>Segment revenue</b>						
Contractual rental income	596 868	123 758	81 404	29 452	–	831 482
StraightLine rental adjustment	3 586	6 423	(1 080)	5 552	–	14 481
Total revenue	600 454	130 181	80 324	35 004	–	845 963
<b>Segment result</b>						
Operating profit/(loss)	466 541	104 823	61 753	34 767	(41 900)	625 984
Interest received	1 383	240	169	9	23 458	25 259
Interest paid	–	–	–	–	(98 102)	(98 102)
Profit on disposal of investment properties	–	–	1 932	–	–	1 932
Fair value adjustments to investment properties	(62 005)	40 292	(8 046)	24 034	–	(5 725)
	405 919	145 355	55 808	58 810	(116 544)	549 348
<b>Other information</b>						
<b>Reportable segment assets</b>						
Property assets	5 883 651	1 177 874	590 495	288 024	–	7 940 044
Trade and other receivables	43 011	6 961	3 846	6	50	53 874
Cash and cash equivalents	4 631	–	–	–	338 996	343 627
Total assets	5 931 293	1 184 835	594 341	288 030	339 046	8 337 545
<b>Reportable segment liabilities</b>						
Interest-bearing liabilities	–	–	–	–	1 225 000	1 225 000
Trade and other payables	68 960	31 355	16 492	366	9 028	126 201
Unitholders for distribution	–	–	–	–	267 238	267 238
Total liabilities	68 960	31 355	16 492	366	1 501 266	1 618 439
Capital expenditure	178 379	147 698	189	–	–	326 266

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

(R000)	2011	2010
<b>23. Segmental information (continued)</b>		
<b>23.2 Geographical segments</b>		
<b>Segment revenue by location</b>		
The following table shows the distribution of the Trust's rentals by geographical location:		
Gauteng	701 067	648 234
Western Cape	168 859	168 800
KwaZulu-Natal	32 337	28 929
	<b>902 263</b>	<b>845 963</b>
<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	6 886 001	6 180 576
Western Cape	1 767 526	1 584 984
KwaZulu-Natal	230 237	232 939
Corporate	386 115	339 046
	<b>9 269 879</b>	<b>8 337 545</b>
<b>Capital expenditure by location</b>		
The following table shows the capital expenditure by the geographical area in which the assets are located:		
Gauteng	552 444	150 407
Western Cape	317 739	100 161
KwaZulu-Natal	547	75 698
	<b>870 730</b>	<b>326 266</b>

#### 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.

# STATEMENT OF FINANCIAL POSITION

for the year ended 30 September 2011

(R000)	Notes	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in Fountainhead Property Trust	2	1 955	1 729
<b>Current assets</b>			
Trade and other receivables	3	4 293	3 903
Cash and cash equivalents	4	2 985	2 086
<b>Total assets</b>		<b>9 233</b>	<b>7 718</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	5	1 000	1 000
Available for sale reserve		1 035	1 057
Retained earnings		3 578	2 448
<b>Non-current liabilities</b>			
Deferred taxation	8	168	172
<b>Current liabilities</b>			
Trade and other payables	6	3 442	3 040
Taxation payable		10	1
<b>Total equity and liabilities</b>		<b>9 233</b>	<b>7 718</b>

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2011

(R000)	Notes	2011	2010
<b>Revenue</b>			
Service fee		40 442	37 593
Interest received		194	161
Distributions received		148	134
<b>Expenditure</b>		<b>33 105</b>	<b>30 840</b>
Administration expenses		571	576
Audit fees		118	86
Directors' fees	7	854	800
Management and administration fees	9	31 562	29 378
<b>Profit before taxation</b>		<b>7 679</b>	<b>7 048</b>
<b>Taxation</b>			
South African normal tax	8	2 149	1 980
Secondary tax on companies		400	400
<b>Profit for the year</b>		<b>5 130</b>	<b>4 668</b>
<b>Other comprehensive income</b>			
Fair value adjustment on investment in Trust		(26)	172
Income tax on other comprehensive income		4	(24)
<b>Total comprehensive income for the year</b>		<b>5 108</b>	<b>4 816</b>

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2011

(R000)	Share capital	Available for sale reserve	Retained earnings	Total equity
Balance at 1 October 2009	1 000	909	1 780	3 689
Profit for the year	–	–	4 668	4 668
<b>Other comprehensive income:</b>				
Fair value adjustment on investment in Fountainhead Property Trust	–	172	–	172
Deferred taxation thereon	–	(24)	–	(24)
Total comprehensive income for the year		148	4 668	4 816
<b>Transactions with owners, recorded directly in equity:</b>				
Dividends paid			(4 000)	(4 000)
<b>Balance at 30 September 2010</b>	<b>1 000</b>	<b>1 057</b>	<b>2 448</b>	<b>4 505</b>
Profit for the year	–	–	5 130	5 130
<b>Other comprehensive income:</b>				
Fair value adjustment on investment in Fountainhead Property Trust	–	(26)	–	(26)
Deferred taxation thereon	–	4	–	4
Total comprehensive income for the year	–	(22)	5 130	5 108
<b>Transactions with owners, recorded directly in equity:</b>				
Dividends paid	–	–	(4 000)	(4 000)
<b>Balance at 30 September 2011</b>	<b>1 000</b>	<b>1 035</b>	<b>3 578</b>	<b>5 613</b>

## STATEMENT OF CASH FLOWS

for the year ended 30 September 2011

(R000)	Notes	2011	2010
<b>Cash effects from operating activities</b>			
Profit before taxation		7 679	7 048
Adjustments for:			
Interest received		(194)	(161)
		7 485	6 887
Trade and other receivables increased		(390)	(392)
Trade and other payables increased		402	237
<b>Cash generated from operations</b>		<b>7 497</b>	<b>6 732</b>
Interest received		194	161
Taxation paid	10.1	(2 540)	(2 130)
Dividends paid	10.2	(4 000)	(4 000)
<b>Cash inflows from operating activities</b>		<b>1 151</b>	<b>763</b>
<b>Cash effects from investing activities</b>			
Addition to investment in Fountainhead Property Trust		(252)	–
<b>Cash outflows from investing activities</b>		<b>(252)</b>	<b>–</b>
Net increase in cash and cash equivalents		899	763
Cash and cash equivalents at 1 October		2 086	1 323
<b>Cash and cash equivalents at 30 September</b>	<b>4</b>	<b>2 985</b>	<b>2 086</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 1. Accounting policies

Fountainhead Property Trust Management Limited (the Company) administers Fountainhead Property Trust (the Trust) in accordance with the provisions of the Collective Investment Schemes Control Act of South Africa. There has been no change in the nature of the business of the Company during the period under review. The financial statements were authorised for issue by the Directors on 2 November 2011.

### 1.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2008 (amended) and the Companies Regulations, 2011.

### 1.2 Basis of preparation

The financial statements are presented in Rands, rounded to the nearest thousand, which is the Company's functional currency. 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, liabilities, income and expenses. The estimates and underlying 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. 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 recognised in profit or loss where the distribution date falls within the reporting period.

### 1.6 Interest income

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

### 1.7 Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are off-set if there is a legally enforceable right to off-set current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Secondary tax on companies that arise from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

### 1.8 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### 1.9 Available for sale reserve

All unrealised gains/losses arising on the revaluation of the investment in the Trust to fair value are recognised directly in the available for sale reserve and recycled through profit or loss on sale or impairment.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 1.10 Investment in the Trust

The investment is stated at fair value (note 2) and is classified as an available for sale financial asset. Any gains or losses arising from a change in fair value is included directly in other comprehensive income for the year in which it arises.

## 1.11 Financial instruments

A financial instrument is recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Company's contractual rights to the cash flows from the financial assets expire or when the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

### Measurement

Financial instruments are initially measured at fair value, including directly attributable transaction costs. 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 method, after deducting accumulated impairment losses. Trade and other receivables form part of the loans and receivables category.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and negotiable certificates of deposit. Cash and cash equivalents are measured at amortised cost. Cash and cash equivalents form part of the loans and receivables category.

#### *Other investments in debt and equity*

The Company classifies its investments in debt and equity securities into the available for sale category.

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

- available for sale are recognised in other comprehensive income and presented within equity in the available for sale reserve, other than changes related to impairment losses, which are recognised in profit or loss.

#### *Trade and other payables*

Trade and other payables are carried at amortised cost, using the effective interest method.

### Set-off

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

## 1.12 Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for loans and receivables at both specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

Individually significant financial assets are tested for impairment on an individual basis. The carrying amount of the impaired financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts written off are credited to profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

In the case of an available for sale financial asset, a significant or prolonged decline in the fair value of the financial asset below its cost is considered as an indicator that the financial asset is impaired. Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the available for sale reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in profit or loss. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

(R000)	2011	2010
<b>2. Investment in Fountainhead Property Trust</b>		
291 720 (2010: 249 904) units in the Trust	1 955	1 729
The investment in the Trust is stated at fair value. The fair value is based on the closing price on the JSE Securities Exchange on 30 September.		
<b>3. Trade and other receivables</b>		
Service fee	4 161	3 775
Prepayments	132	128
	<b>4 293</b>	<b>3 903</b>
<b>4. Cash and cash equivalents</b>		
Deposits at bank	10	8
Deposits on call	2 975	2 078
	<b>2 985</b>	<b>2 086</b>
<b>5. Share capital</b>		
Authorised and issued		
1 000 000 ordinary shares of R1 each	1 000	1 000
The Company declared and paid a dividend of 400 cents (2010: 400 cents) per ordinary share, totalling R4 million (2010: R4 million).		
<b>6. Trade and other payables</b>		
Management fees	3 121	2 831
VAT payable	103	86
Sundry creditors	163	80
Audit fee	55	43
	<b>3 442</b>	<b>3 040</b>
<b>7. Directors' remuneration</b>		
<b>Directors' emoluments</b>		
For services as Directors of the Company		
– A E Raubenheimer*^	80	80
– W M Kirchmann	120	120
– V A Christian	138	120
– H Y Laher	138	120
– D S Ogbu~	80	80
– J D Rainier†	138	120
– D S Savage	13	–
– S Segar~	67	80
– S Shaw-Taylor^	80	80
Total Directors' remuneration	<b>854</b>	<b>800</b>

\* Executive

^ Paid directly to Standard Bank of South Africa Limited

~ Paid directly to Liberty Group Limited

† In 2011 R40 000 paid directly to Standard Bank. In 2010 the full amount was paid directly to Standard Bank.

#### 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

for the year ended 30 September 2011

(R000)	2011	2010
<b>8. Taxation</b>		
South African normal taxation		
– current	2 149	1 980
Secondary tax on companies	400	400
	<b>2 549</b>	<b>2 380</b>
<i>The taxation charge is reconciled as follows:</i>		
Profit before taxation	7 679	7 048
Tax calculated at a tax rate of 28%	2 150	1 973
Prepaid expenditure	(1)	7
Secondary tax on companies	400	400
Taxation per the statement of comprehensive income	<b>2 549</b>	<b>2 380</b>
<i>The taxation rate is reconciled as follows:</i>		
	%	%
Statutory taxation rate	28.00	28.00
Prepaid expenditure	(0.01)	0.10
Secondary tax on companies	5.21	5.68
Effective tax charge	<b>33.20</b>	<b>33.78</b>
Deferred taxation liability		
Opening balance	172	148
Fair value adjustment of investment in Fountainhead Property Trust (recognised in other comprehensive income)	(4)	24
Closing balance	<b>168</b>	<b>172</b>
<i>Deferred tax comprises:</i>		
Deferred tax on fair value adjustment of investment in Fountainhead Property Trust	<b>168</b>	<b>172</b>
<b>9. Management and administration fees</b>		
The following management and administration fees were paid during the year:		
Evening Star Trading 768 Proprietary Limited	30 331	28 195
Broll Property Group Proprietary Limited	1 231	1 183
	<b>31 562</b>	<b>29 378</b>
<b>10. Notes to the cash flow statement</b>		
<b>10.1 Taxation paid</b>		
Amounts unpaid at 1 October	173	(101)
Amounts charged to profit or loss	2 549	2 380
Amount recognised in other comprehensive income	(4)	24
Amounts unpaid at 30 September	(178)	(173)
	<b>2 540</b>	<b>2 130</b>
<b>10.2 Dividends paid</b>		
Amounts unpaid at 1 October	–	–
Amounts declared	4 000	4 000
Amounts unpaid at 30 September	–	–
	<b>4 000</b>	<b>4 000</b>

## 11. 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 149 971. At 30 September 2011 the capital balance was R3 823 909.

The cost of the investment in Fountainhead Property Trust at 30 September 2011 was R750 704 (2010: R499 808).

(R000) 2011 2010

## 12. Financial risk management

The Company's financial instruments consist mainly of its investment in Fountainhead Property Trust, cash and cash equivalents, trade and other receivables and trade and other payables.

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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The Company's financial assets that are subject to credit risk are cash resources and trade and other receivables.

The Company uses reputable financial institutions for investing and cash-handling purposes.

Trade and other receivables are mainly due from the Fountainhead Property Trust. All amounts receivable are current and no impairments are deemed necessary. The credit quality of the receivables are deemed to be adequate.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Trade and other receivables	4 293	3 903
Cash and cash equivalents	2 985	2 086
	7 278	5 989

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Cash flows are monitored on a weekly basis to ensure that cash resources are adequate to meet funding requirements.

The following table details the Company's contractual maturities of financial liabilities, excluding interest payments. The table has been prepared based on undiscounted cash flows of financial liabilities based on the earliest date that the Company may be required to pay.

Less than three months

– Trade and other payables	3 442	3 040
----------------------------	-------	-------

### Interest rate risk

Interest rate movements impact on the net income of the Company's short-term cash investments.

The risk is managed by the Company by investing surplus cash at negotiated rates.

#### *Interest rate sensitivity analysis*

The sensitivity analysis is based on the exposure to interest rates at reporting date.

For floating rate assets, the analysis assumes that the asset existing at the reporting date existed for the whole year.

A 50 basis point increase or decrease is used when reporting interest rate internally to key management personnel and represents management's reasonable assessment of the possible change in interest rates.

For floating rate assets, if interest rates were 50 basis points higher/lower and all other variables were constant, the Company's profit for the year ended 30 September 2011 would increase/decrease by R14 925 (2010: increase/decrease by R10 430).

The analysis was performed on the same basis in 2010.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

## 12. Financial risk management (continued)

### Capital management

The capital structure of the Company is governed by the Collective Investment Schemes Control Act, 2002.

The minimal capital requirement is R1 149 971 (2010: R1 105 777).

### Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments, measured at fair value at the end of the reporting period are all categorised as level 1 investments.

## 13. Related parties

### Shareholders

The shareholders of Fountainhead Property Trust Management Limited are Standard Bank Properties Proprietary Limited (50 percent) and Liberty Group Limited (50 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.

Standard Bank Properties Proprietary Limited and Liberty Group Limited are the shareholders.

Evening Star Trading 768 Proprietary Limited is a fellow subsidiary within the Standard Bank Group.

### Type of related party transactions

A service fee has been received from Fountainhead Property Trust. The management company has paid administration fees to Evening Star Trading Proprietary Limited.

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

### Material related party transactions

Service fee – refer statement of comprehensive income

Management and administration fees – refer note 9

Directors' emoluments – refer note 7

## 14. New accounting statements and interpretations issued and not yet effective

The following Standards and Interpretation, which have been issued but are not yet effective, are applicable to the Company. These Standards and Interpretation have not yet been applied in these financial statements. The Company intends to comply with these Standards from the effective dates. The impact on the financial statements has not yet been determined.

### IFRS 9 – *Financial Instruments*

The International Accounting Standards Board (IASB) has issued IFRS 9 – *Financial Instruments*, which is the first step in its project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and derecognition of financial assets and liabilities. Changes to embedded derivatives, which are no longer separated from hybrid contracts that have a financial asset host, are not relevant to the Company, due to the fact that there are no embedded derivatives. The Standard will be adopted for the first time for the 30 September 2014 financial year-end.

## 14. New accounting statements and interpretations issued and not yet effective (continued)

### *IAS 24 – Related Parties*

The amended Standard requires commitments, as well as the nature of the relationship between related parties to be identified and disclosed. The amended Standard gives clarity to the related party definition and other terms in the Standard. The Standard will be effective for the Company for the financial reporting period ending 30 September 2012.

### *IFRS 7 – Financial Instruments: Disclosures (amendments)*

The amendments are effective for reporting the Company's financial reporting period ending 30 September 2012 and add an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate the Company's exposure to risks arising from financial instruments.

### *IFRS 13 – Fair Value Measurement*

IFRS 13 will be adopted by the Company for the first time for its financial reporting period ending 30 September 2014. IFRS 13 introduces a single source of guidance on fair value measurement for both financial and non-financial assets and liabilities by defining fair value, establishing a framework for measuring fair value and setting out disclosure requirements for fair value measurements.

### **Improvements to Standards and Interpretations not yet effective**

Improvements have been made to Standards and Interpretations in issue not yet effective per the improvements to IFRS 2010 Standards and Improvements to IFRS 2011 Standards with an effective date for the Company of 1 October 2011 or 1 October 2012. Management have considered all the improvements and have concluded that they will have either no or minimal impact.

## 15. Events after reporting period

There are no material facts or circumstances which occurred between the end of the reporting period and the date when the financial statements are authorised for issue that would require adjustment or disclosure in the financial statements.

# DIRECTORS' REPORT

for the year ended 30 September 2011

<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 R4.0 million (2010: R4.0 million) was declared during the year.
<b>DIRECTORS:</b>	<p>The Directors of the Company are as follows:</p> <p>A E Raubenheimer (Managing Director and Financial Director) W M Kirchmann (Chairman) V A Christian H Y Laher D S Ogbu J D Rainier D S Savage (appointed 2 August 2011) S J Segar (resigned 1 August 2011) S Shaw-Taylor</p>
<b>MANAGERS AND SECRETARIES:</b>	Broll Property Group Proprietary Limited
<b>Business address:</b>	2nd Floor, Broll House 27 Fricker Road Illovo 2196 Johannesburg
<b>Postal address:</b>	PO Box 1455 Saxonwold 2132
<b>AUDITORS:</b>	KPMG Inc. are reappointed in terms of section 90 of the Companies Act.
<b>REGISTRATION NO:</b>	1983/003324/06

# MANAGEMENT COMPANY'S RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

The Management Company's Directors are responsible for the preparation and fair presentation of the annual financial statements of Fountainhead Property Trust, comprising the statement of financial position at 30 September 2011, and the statements of comprehensive income, changes in unitholders' fund and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the AC 500 series issued by the Accounting Practices Board, and the requirements of the Collective Investment Schemes Control Act of South Africa.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Directors have made an assessment of the ability of the Trust to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The annual financial statements of Fountainhead Property Trust, as identified in the first paragraph, were approved by the Board of Directors on 2 November 2011 and are signed by:



W M Kirchmann  
*Chairman*



A E Raubenheimer  
*Managing Director*  
*Authorised Director*

# DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2011

The Directors are responsible for the preparation and fair presentation of the annual financial statements of Fountainhead Property Trust Management Limited, comprising the statement of financial position at 30 September 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards, and the requirements of the Companies Act, 2008 (as amended) and Companies Regulations 2011 of South Africa.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The annual financial statements of Fountainhead Property Trust Management Limited, as identified in the first paragraph, were approved by the Board of Directors on 2 November 2011 and are signed by:



W M Kirchmann  
Chairman



A E Raubenheimer  
Managing Director  
Authorised Director

# REPORT OF THE AUDIT AND RISK COMMITTEE

## Report in terms of section 61(8)(a)(ii) and section 94(7)(f) of the Companies Act, 71 of 2008 (the Companies Act)

Information on the role and composition of the Audit and Risk Committee, its terms of reference and procedures, meeting attendance and responsibilities are described more fully in the corporate governance report commencing on page 10 of this integrated report. The Audit and Risk Committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Company's accounting, internal control and financial reporting practices.

### Execution of functions of the Audit and Risk Committee

The Committee performed the following activities during the year under review:

- considered the independence and objectivity of the external auditors and ensured that the scope of additional services provided did not impair their independence;
- reviewed the external audit plan and approved the external auditor's fee proposal for the 2011 financial year;
- approved the non-audit-related services performed by the external auditors in the year in accordance with the policy established and approved by the Board;
- reviewed and approved the internal audit plan and ensured that it was executed accordingly;
- considered the appropriateness of the accounting policies;
- considered accounting treatments, significant financial transactions and other financial information; and
- in compliance with the JSE Listings Requirement 3.84(h), the Committee reviewed the performance, appropriateness and expertise of Mr A E Raubenheimer in his role of Financial Director, and was satisfied with his experience and expertise to fulfil his role.

After assessing the requirements set out in section 94(7)(a – e) of the Companies Act, the Committee is satisfied with the independence and objectivity of the external auditors, and recommends the reappointment of the external auditors at the next annual general meeting.

The Audit and Risk Committee has evaluated the financial statements of the Trust and Company for the year ended 30 September 2011 and, based on the information provided to the Audit and Risk Committee, considers that the Company complies with the Companies Act and International Financial Reporting Standards (IFRS).



V A Christian

*Audit and Risk Committee Chairman*

# INDEPENDENT AUDITOR'S REPORT

for the year ended 30 September 2011

## To the unitholders of Fountainhead Property Trust

We have audited the annual financial statements of Fountainhead Property Trust, which comprise the statement of financial position at 30 September 2011, and the statements of comprehensive income, changes in unitholders' funds and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 34 to 50.

## Directors' responsibility for the financial statements

The Management Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Collective Investment Schemes Control Act of South Africa and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## 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.

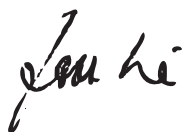
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Fountainhead Property Trust at 30 September 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Collective Investment Schemes Control Act of South Africa.

KPMG Inc.

Registered Auditor



Per M Fouché

Chartered Accountant (SA)

Registered Auditor

Director

85 Empire Road

Parktown

Johannesburg

2193

2 November 2011

# INDEPENDENT AUDITOR'S REPORT

for the year ended 30 September 2011

## To the shareholders of Fountainhead Property Trust Management Limited

We have audited the annual financial statements of Fountainhead Property Trust Management Limited, which comprise the statement of financial position at 30 September 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, as set out on pages 51 to 60.

## Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## 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.

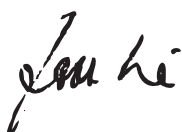
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Fountainhead Property Trust Management Limited at 30 September 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

KPMG Inc.

Registered Auditor



Per M Fouché

Chartered Accountant (SA)

Registered Auditor

Director

85 Empire Road  
Parktown  
Johannesburg  
2193

2 November 2011

## REPORT OF THE TRUSTEE

for the year ended 30 September 2011

in terms of section 70(1)(f) of the Collective Investments 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

Trustees

Johannesburg

2 November 2011

## CERTIFICATE BY COMPANY SECRETARY

for the year ended 30 September 2011

We hereby certify that for the year ended 30 September 2011, the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of section 88(2)(e) of the Companies Act, 2008, as amended, and all such returns are true, correct and up to date.



Broll Property Group Proprietary Limited

Secretaries

2 November 2011

## 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







300 Middel Street

# FOUNTAINHEAD

Property Trust ■■■■■■

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

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