

FOUNTAINHEAD

Property Trust ■■■■■■■■

* Final distribution of 26.83 cents per unit

* Net asset value of R6.74 per unit

* Gearing of 15%

* Distribution growth of 4% for the year

The directors of Fountainhead Property Trust Management Limited, the manager of Fountainhead Property Trust, submit their report on the audited results of Fountainhead Property Trust for the year ended 30 September 2010. These abridged financial statements have been extracted from the audited financial statements on which KPMG Inc. have issued an unmodified audit opinion and which are available for inspection at the registered office.

STATEMENT OF FINANCIAL POSITION

	2010 R'000	2009 R'000
ASSETS		
Property assets	7 940 044	7 621 090
Investment properties	7 677 024	7 372 551
Straight-line lease accrual	263 020	248 539
Current assets	397 501	380 414
Trade and other receivables	53 874	46 542
Cash and cash equivalents	343 627	333 872
Total assets	8 337 545	8 001 504
UNITHOLDERS' FUNDS AND LIABILITIES		
Unitholders' funds	6 719 106	6 708 418
Capital of the fund	1 933 354	1 933 354
Capital reserve	513 837	501 906
Revaluation reserve	4 008 835	4 024 559
Retained earnings	263 080	248 599
Non-current liabilities		
Interest-bearing liability	1 225 000	915 000
Current liabilities	393 439	378 086
Trade and other payables	126 201	116 127
Unitholders for distribution	267 238	261 959
Total unitholders' funds and liabilities	8 337 545	8 001 504

STATEMENT OF COMPREHENSIVE INCOME

	2010 R'000	2009 R'000
Income	845 963	785 120
Contractual rental income	831 482	768 565
Straight-line lease adjustment	14 481	16 555
Expenses	(219 979)	(195 004)
Administrative expenses	(42 265)	(35 921)
Property operating expenses	(177 714)	(159 083)
Operating profit	625 984	590 116
Net finance costs	(72 843)	(55 619)
Interest received	25 259	34 658
Interest paid	(98 102)	(90 277)
Profit on disposal of investment property	1 932	–
Fair value adjustments to investment properties	(5 725)	82 528
Profit for the year	549 348	617 025
Total comprehensive income for the year	549 348	617 025
Basic/diluted earnings per unit (cents)	55.15	61.95
Headline earnings and distribution income reconciliation		
Profit for the year	549 348	617 025
Adjust for:		
Profit on disposal of investment property	(1 932)	–
Fair value adjustments to investment properties	5 725	(82 528)
Headline earnings	553 141	534 497
Less: straight-line lease adjustment	(14 481)	(16 555)
Distribution income	538 660	517 942
Headline earnings per unit (cents)	55.53	53.66
Distribution per unit (cents)	54.08	52.00
Interim distribution per unit (cents)	27.25	25.70
Final distribution per unit (cents)	26.83	26.30
Units in issue	996 043 081	996 043 081

COMMENTARY

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The annual results have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Collective Investment Schemes Control Act. The accounting policies are consistent in all material respects with those applied in prior years, except for IAS 1 – Presentation of Financial Statements, IAS 23 – Borrowing Costs and IFRS 8 – Operating Segments, which are new standards adopted in the current financial year.

2. DISTRIBUTION PER UNIT

Fountainhead Property Trust's net distribution income for the six months ended September 2010 amounts to 26.83 cents per unit, 2 percent greater than the comparable period last year. The net distribution for the financial year ended September 2010 is 54.08 cent per unit, which is 4 percent greater than the comparable period last year.

3. BORROWINGS

The interest-bearing liability comprises:

Term Loan A – a R615 000 000 interest only facility at a rate of prime less 2.3% payable by 24 June 2012. An additional R125 000 000 of this facility is still available for access.

Term Loan B – a R250 000 000 interest only facility fixed at a rate of 11.07% 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% until 22 July 2012. This facility is payable by 22 July 2012.

Term Loan D – a R160 000 000 interest only facility floating at a rate of 1 month JIBAR +2.73% until 22 July 2014. This facility is payable by 22 July 2014. An additional R40 000 000 of this facility is still available for access.

Blue Route Mall Development Loan Facility – a R788 000 000 interest only facility floating at a rate of 1 month JIBAR +2.50% until 31 May 2015. This facility is payable by 31 May 2015. This facility has not yet been accessed. Interest payments will be capitalised on this facility until the development is completed.

4. MAJOR CAPITAL PROJECTS

Significant capital projects are:

Blue Route Mall

The construction work on this project commenced during April 2010 with the demolition of a portion of the existing building and the preparation of the new mall's foundation and parking garage. The project is on schedule with an expected completion date of March 2012.

Centurion Mall

The restructuring of the Pick n Pay space at the mall has commenced. The Trust's share of the estimated cost is R45 million at an initial yield of 8%. The restructuring involves reducing the Pick n Pay area and introducing new stores to this space, including Pick n Pay Clothing, UFO Furnishers and an upgraded Hi-Fi Corporation. The expected completion date is mid-2011.

5. ACQUISITION AND DISPOSALS

The Trust has purchased the following properties during the year:

Sector	Building name	Location	Price	Initial yield	Transfer date
Offices	18 The Boulevard	Westville, Durban	R75 000 000	9.00%	1 March 2010
Offices	2 Pybus Road	Sandton, Johannesburg	R70 000 000	9.62%	13 May 2010

The Trust has successfully negotiated the purchase of an 80% undivided share in an office building called CK3. The purchase price is R204 million at an expected initial yield of 9.05%. Transfer is expected to take place during December 2010.

The Trust has sold the following property during the year:

Sector	Building name	Location	Transfer date	Selling price	Valuation	Profit on sale
Industrial	7 Benbow Road	Epping, Cape Town	7 May 2010	R18 000 000	R16 067 610	R1 932 390

The Trust has also successfully negotiated the sale of the two office buildings. Human Rights House is to be sold for R38.5 million, which represents a profit on sale of R9.8 million.

22 Wellington Road has been sold for R19.5 million, which represents a profit on sale of R3 million. Transfer was effective in October 2010.

6. SEGMENTAL INFORMATION

	September 2010			September 2009		
	Revenue Rm	Net income Rm	% of total	Revenue Rm	Net income Rm	% of total
Retail	597	465	86	549	436	84
Office blocks	124	99	18	114	88	17
Industrial	81	63	12	79	62	12
Specialised	29	29	6	26	26	5
Corporate	–	(117)	(22)	–	(94)	(18)
Total	831	539	100	768	518	100

STATEMENT OF CASH FLOWS

	2010 R'000	2009 R'000
Cash effects from operating activities		
Profit for the year	549 348	617 025
Adjustments for:		
Straight-line lease adjustment	(14 481)	(16 555)
Interest received	(25 259)	(34 658)
Interest paid	98 102	90 277
Profit on disposal of investment property	(1 932)	–
Fair value adjustments to investment properties	5 725	(82 528)
Operating profit before changes in working capital	611 503	573 561
Trade and other receivables increased	(7 332)	(8 029)
Trade and other payables increased	10 074	9 677
Cash generated from operations	614 245	575 209
Interest received	25 259	34 658
Interest paid	(98 102)	(90 277)
Income distributions	(533 381)	(500 014)
Cash inflows from operating activities	8 021	19 576
Cash effects from investing activities		
Additions to investment properties	(326 266)	(186 888)
Proceeds from disposal of investment property	18 000	–
Cash outflows from investing activities	(308 266)	(186 888)
Cash effects from financing activities		
Long-term loan raised	310 000	184 000
Cash inflows from financing activities	310 000	184 000
Net increase in cash and cash equivalents	9 755	16 688
Cash and cash equivalents at beginning of the year	333 872	317 184
Cash and cash equivalents at end of the year	343 627	333 872

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS

(R'000)	Capital of the fund	Capital Reserve	Revaluation Reserve	Retained earnings	Total unitholders' funds
Balance at 1 October 2008	1 933 354	501 906	3 942 031	232 044	6 609 335
Total comprehensive income for the year	–	–	–	617 025	617 025
Profit and total comprehensive income for the year	–	–	–	617 025	617 025
Transactions with unitholders, recorded directly in equity					
Fair value adjustment on investment properties transferred to revaluation reserve	–	–	82 528	(82 528)	–
Income distributions	–	–	–	(517 942)	(517 942)
Total transactions with unitholders	–	–	82 528	(600 470)	(517 942)
Balance as at 30 September 2009	1 933 354	501 906	4 024 559	248 599	6 708 418
Total comprehensive income for the year	–	–	–	549 348	549 348
Profit and total comprehensive income for the year	–	–	–	549 348	549 348
Transactions with unitholders, recorded directly in equity					
Profit and revaluation reserve realised on sale of property transferred to capital reserve	–	11 931	(9 999)	(1 932)	–
Fair value adjustment on investment properties transferred to revaluation reserve	–	–	(5 725)	5 725	–
Income distributions	–	–	–	(538 660)	(538 660)
Total transactions with unitholders	–	11 931	(15 724)	(534 867)	(538 660)
Balance as at 30 September 2010	1 933 354	513 837	4 008 835	263 080	6 719 106

7. VACANCY LEVELS

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

Sector	Sep 2010 %	Sep 2009 %
Retail	5	6
Office blocks	12	7
Industrial	10	8
Specialised	–	–
Total	7	6

By value, the vacancies equated to 5 percent of potential rental income, the same as at half-year.

In the retail sector 62 percent of the vacancies were contained in The Brightwater Commons, The Boulders Shopping Centre and at Centurion Mall. Vacancies have improved compared to the prior financial year.

The office sector had a vacancy of 12 percent which is primarily situated in Grayston Ridge, AMR Office Park and The Ambridge. This sector remains under pressure.

The industrial sector had a vacancy of 10 percent. Approximately 26 percent of the total vacant industrial area has been let for future occupation.

8. LEASE EXPIRY PROFILE

The lease expiry profile by rentable area as at 30 September 2010 is as follows (%):

Building	Vacant	2011	2012	2013	2014	2015	>2015
Retail	5	20	15	13	14	18	15
Offices	12	24	25	7	2	9	21
Industrial	10	40	20	28	2	0	0
Specialised	0	0	0	0	0	0	100
Total	7	25	17	15	9	11	16

9. PORTFOLIO VALUATIONS

The composition of Fountainhead Property Trust's portfolio, as valued by the independent valuer, Rode and Associates CC, as at 30 September 2010, is as follows:

Sector	Value (Rm)	Cents/unit	Forward EY (%)	% of portfolio	
				2010	2009
Retail	5 884	591	8.3	74	76
Office blocks	1 178	118	8.7	15	13
Industrial	590	59	10.9	7	8
Specialised	288	29	10.7	4	3
Total property	7 940	797	8.6	100	100
Long-term borrowings	(1 225)	(123)	–	–	–
Net current assets	4	–	–	–	–
	6 719	674	–	–	–

The net asset value of R6.74 per unit is the same as at 30 September 2009.

10. PROSPECTS

It is anticipated that the distribution per unit for the year ending 30 September 2011 will increase by approximately 3 percent compared with the financial year ended 30 September 2010. This is based on the Board's assessment of the current economic climate and the short-term dilution of the Blue Route Mall redevelopment. Excluding the Blue Route Mall redevelopment, the benefit of which will accrue in the future, the anticipated distribution growth would have been approximately 6 percent. The above forecast information has not been reviewed or reported on by Fountainhead Property Trust's auditor.

11. INCOME DISTRIBUTION ANNOUNCEMENT

Notice is hereby given of distribution No. 55 of 26.83 cents per unit for the six months ended 30 September 2010.

The last date to trade cum distribution will be Friday, 12 November 2010. The units of Fountainhead Property Trust will commence trading ex-distribution on Monday, 15 November 2010 and the record date will be Friday, 19 November 2010. The distribution will be paid on Monday, 22 November 2010.

Unit certificates may not be dematerialised or rematerialised between Monday, 15 November 2010 and Friday, 19 November 2010, both dates inclusive.

BY ORDER OF THE BOARD

Fountainhead Property Trust Management Limited

(Reg No 1983/003324/06)

27 October 2010