

FORTRESS
INCOME FUND LIMITED



**Condensed
Unaudited Consolidated
Interim Financial
Statements**

for the six months ended
31 December
2010

Incorporated in the Republic of South Africa
Registration no 2009/016487/06
JSE codes "FFA"
ISIN ZAE000141313 and "FFB"
ISIN ZAE000141321 respectively
("Fortress" or "the company" or "the group")

DIRECTORS' COMMENTARY

1 LISTING AND STRUCTURE

Fortress listed on the JSE Limited on 22 October 2009 with an A/B linked unit structure. The Fortress A and B units offer investors a unique risk and reward opportunity. Fortress A units yielded 10,75% on the listing price of R9,00 with an escalation of 5% per annum for five years and at the lower of CPI and 5% thereafter. Income is firstly distributed to the Fortress A units with the balance of the distributable income attributed to the Fortress B units.

The property portfolio has been actively asset managed with acquisitions, sales and refurbishments undertaken to upgrade the quality of the portfolio. Since the financial year end 11 817 123 A units and 11 817 123 B units were placed at R10,40 and R2,30 respectively to raise additional finance for the acquisition of properties. A total of R150 million was raised in the placing.

2 DISTRIBUTABLE EARNINGS

Fortress achieved total distributions for the six months ended 31 December 2010 of 56,84 cents for the A and B units combined. Of this amount, 50,80 cents is payable to A unitholders and 6,04 cents to B unitholders.

3 COMMENTARY ON RESULTS

Vacancies increased marginally to 5,9% at 31 December 2010 from 5,7% at 30 June 2010. A tenant liquidation at 595 Sydney Road, Congella (Durban) resulted in a vacancy of 10 032 m².

Despite firm credit control arrears increased. Management expects the arrears to decline during the remaining six months of the financial year as the economy stabilises. Increases in operating costs remain an area of concern, particularly sharp increases in municipal rates which are not always recoverable from tenants.

4 DISPOSALS

Fortress sold Fort Gale Estate Mthatha and York Road Mthatha into a joint venture with Copper Lake Investments. Fortress holds a 60% interest in the joint venture and provided mezzanine finance of R52 million at an interest rate of prime plus 2%. The rationale for the joint venture was that the Mthatha properties included residential units and multi-tenanted offices which require intensive management which is provided by the joint venture partner.

Fortress disposed of the following properties:

Property name	Book value 30 June 2010 R'000	Sale price R'000	Exit yield	Transfer/ effective date
Fort Gale Estate Mthatha*	68 055	68 156	11,7%	1 Jul 10
York Road Mthatha*	43 300	47 200	11,4%	1 Jul 10
619 Voortrekker Road Gezina	39 900	39 900	11,2%	@
5 Handel Road Ormonde	38 500	38 500	9,0%	2 Dec 10
Sucosa House Kramerville	12 200	14 000	10,3%	@
30 Coronation Road Maitland	**	12 700	6,9%	@
213 Monte Carlo Crescent Kyalami	6 700	6 700	\$	7 Sep 10
223 Monte Carlo Crescent Kyalami	6 400	6 700	9,6%	@
21 Mandy Road	4 300	4 300	9,2%	@
London Lane (Erf 65 only)	1 008	1 443	8,1%	14 Dec 10

*Sold into a joint venture (60% owned) **Acquired during the financial period \$Vacant
@Not yet transferred

5 PROPERTY ACQUISITIONS

The following properties were acquired during the period:

Property name	Purchase price R'000	Initial yield	Effective date
Bellstar, Bellville**	66 400	11,0%	1 Nov 10
Middelburg Plaza	62 000	11,0%	14 Oct 10
Philippi Shopping Centre*	60 500	10,5%	Transfer date
Makhaza Shopping Centre	51 500	11,5%	28 Oct 10
73 Hertzog Boulevard, Cape Town	47 909	11,0%	1 Nov 10
Epp Yard Gunners Circle, Epping	36 664	11,0%	1 Nov 10
2 Skeen Boulevard, Bedfordview	32 636	11,0%	1 Nov 10
Bayside Centre, Mossel Bay*	30 769	11,0%	1 Nov 10
Monument Centre, Standerton	26 957	11,0%	1 Nov 10
Queenstown Mall*	21 481	11,0%	1 Nov 10
Biyela Shopping Centre, Empangeni*	20 000	11,0%	1 Nov 10
10 Skeen Boulevard, Bedfordview	16 364	11,0%	1 Nov 10
Taxi City, East London	15 000	11,0%	1 Nov 10
Shorthorn Street, City Deep	13 846	11,0%	1 Nov 10
Game Makhado (50% undivided share)	13 250	11,8%	14 Dec 10
People's Place, Queenstown*	13 077	11,0%	1 Nov 10
Att Yard Gunners Circle, Epping	10 818	11,0%	1 Nov 10
30 Coronation Road, Maitland	8 000	11,0%	1 Nov 10
312 Kent Avenue, Randburg	7 308	11,0%	1 Nov 10
34 Kinson Road, Robertsham*	6 154	11,0%	1 Nov 10
Total	560 633		

*Not yet transferred.

**Consent to transfer has been obtained from the South African Rail Commuter Corporation Limited.

6 REDEVELOPMENTS

6.1 Sinoville Shopping Centre

The scope of the redevelopment of this retail centre has been increased and is now scheduled for completion in March 2011. Although not complete, the redevelopment has positively impacted on the tenant profile of the property and the Pick 'n Pay lease has been renewed for a further period of five years.

6.2 Evaton Plaza

The 1 800 m² extension to the centre to accommodate Pick 'n Pay, was completed ahead of schedule in October and within the budget of R16,8 million. Fortress has a 50% interest in this property.

7 LISTED EQUITIES

Fortress disposed of its investment in the REIT Fund and increased its investment in New Europe Property Investments plc from 2 010 000 shares at 30 June 2010 to 3 327 585 shares at 31 December 2010. Fortress also holds 27 000 000 Capital Property Fund units.

8 FUNDING

Fortress' gearing increased from 22,5% at year end to 22,6% at 31 December 2010, however, the figure will increase once all the property acquisitions have transferred.

9 BLACK ECONOMIC EMPOWERMENT

Fortress is at an advanced stage with negotiations to implement a BEE scheme as authorised by unitholders at the last annual general meeting. Management is confident that the scheme will be in place by the end of the financial year.

10 PROSPECTS

The board remains confident that Fortress will achieve growth in distributions of approximately 7% for the full financial year. The growth is based on the assumptions that a stable macro-economic environment will prevail, no major corporate failures will occur and that tenants will be able to absorb the recovery of rising utility costs. Budgeted rental income was based on contractual escalations and market related renewals. This forecast has not been reviewed or reported on by Fortress' auditors.

By order of the board

Mark Stevens
Managing director

Nick Hanekom
Financial director

Johannesburg

23 February 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited Dec 2010 R'000	Restated Jun 2010 R'000	Restated Dec 2009 R'000
ASSETS			
Non-current assets	3 514 398	2 914 116	2 721 608
Investment property	2 955 725	2 435 926	2 365 861
Straight-lining of rental revenue adjustment	19 564	16 556	6 306
Investment property under development	15 579	40 013	27 981
Investments	320 665	299 608	275 585
Loans	194 638	122 013	45 875
Loans to development partners	8 227	-	-
Current assets	128 549	128 731	43 502
Investment property held for sale	77 408	88 702	-
Straight-lining of rental revenue adjustment	192	698	-
Loans	4 090	2 351	-
Loans to development partners	6 624	2 882	-
Trade and other receivables	24 266	29 118	36 328
Cash and cash equivalents	15 969	4 980	7 174
Total assets	3 642 947	3 042 847	2 765 110
EQUITY AND LIABILITIES			
Total equity attributable to equity holders	458 489	367 890	223 628
Share capital	4 416	4 036	3 728
Share premium	281 487	214 924	182 544
Non-distributable reserves	172 586	148 930	37 356
Retained earnings	-	-	-
Total liabilities	3 184 458	2 674 957	2 541 482
Non-current liabilities	2 323 471	2 517 332	2 404 234
Linked debentures	1 986 750	1 816 046	1 677 530
Interest-bearing borrowings	321 121	685 018	723 790
Deferred tax	15 600	16 268	2 914
Current liabilities	860 987	157 625	137 248
Trade and other payables	234 059	50 337	23 332
Linked debenture interest payable	125 474	107 288	49 487
Income tax payable	463	-	134
Interest-bearing borrowings	500 991	-	64 295
Total equity and liabilities	3 642 947	3 042 847	2 765 110

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited for the six months ended Dec 2010 R'000	Restated for the nine months ended Jun 2010 R'000	Restated for the three months ended Dec 2009 R'000
Net rental and related revenue	148 569	209 349	71 524
Recoveries and contractual rental revenue	210 446	272 108	89 699
Straight-lining of rental revenue adjustment	2 502	17 254	6 306
Rental revenue	212 948	289 362	96 005
Property operating expenses	(64 379)	(80 013)	(24 481)
Distributable income from investments	10 444	15 831	4 054
Fair value gain on investment property and investments	38 989	165 121	34 075
Fair value gain on investment property	5 628	162 120	26 007
Adjustment resulting from straight-lining of rental revenue	(2 502)	(17 254)	(6 306)
Fair value gain on investments	35 863	20 255	14 374
Administrative expenses	(5 996)	(9 821)	(2 429)
Listing costs	-	(3 197)	(3 197)
Profit before net finance costs	192 006	377 283	104 027
Net finance costs	(167 947)	(211 761)	(63 623)
Finance income	14 917	12 222	4 963
Interest from loans	8 151	6 238	1 743
Fair value adjustment on interest rate swaps	-	-	3 220
Interest on linked units issued cum distribution	6 766	5 984	-
Finance costs	(182 864)	(223 983)	(68 586)
Interest on borrowings	(40 411)	(55 874)	(19 680)
Capitalised interest	453	2 322	581
Fair value adjustment on interest rate swaps	(17 432)	(13 656)	-
Interest to linked debenture holders	-	-	-
- A linked units	(112 141)	(142 711)	(45 088)
- B linked units	(13 333)	(14 064)	(4 399)
Profit before income tax expense	24 059	165 522	40 404
Income tax expense	(403)	(16 592)	(3 048)
Profit for the period attributable to equity holders	23 656	148 930	37 356
Total comprehensive income for the period	23 656	148 930	37 356
Basic earnings per A share (cents)	5,36	36,90	10,02
Basic earnings per B share (cents)	5,36	36,90	10,02
Basic earnings per A linked unit (cents)	56,16	107,63	34,21
Basic earnings per B linked unit (cents)	11,40	43,87	12,38

Fortress has no dilutionary instruments in issue.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Restated	Share capital R'000	Share premium R'000	Non-distributable reserves R'000	Retained earnings R'000	Total R'000
Balance at 30 September 2009	–	–	–	–	–
Issue of linked units (equal number of A and B units)	3 728	182 544			186 272
Total comprehensive income for the period				37 356	37 356
Transfer to non-distributable reserves			37 356	(37 356)	–
Balance at 31 December 2009	3 728	182 544	37 356	–	223 628
Issue of linked units (equal number of A and B units)	308	32 380			32 688
Total comprehensive income for the period				111 574	111 574
Transfer to non-distributable reserves			95 482	(95 482)	–
Change in accounting policy			16 092	(16 092)	–
Balance at 30 June 2010 restated	4 036	214 924	148 930	–	367 890
Issue of linked units (equal number of A and B units)	380	66 563			66 943
– Issue of 11 817 123 units on 23 September 2010	236	40 171			40 407
– Issue of 7 150 000 units on 7 December 2010	144	26 392			26 536
Total comprehensive income for the period				23 656	23 656
Transfer to non-distributable reserves			23 656	(23 656)	–
Balance at 31 December 2010	4 416	281 487	172 586	–	458 489

RECONCILIATION OF PROFIT FOR THE PERIOD TO HEADLINE EARNINGS AND DISTRIBUTABLE INCOME

	Unaudited for the six months ended Dec 2010 R'000	Restated for the nine months ended Jun 2010 R'000	Restated for the three months ended Dec 2009 R'000
Basic earnings (shares) – profit for the period attributable to equity holders	23 656	148 930	37 356
– interest to A linked debenture holders	112 141	142 711	45 088
– interest to B linked debenture holders	13 333	14 064	4 399
Basic earnings (linked units)	149 130	305 705	86 843
Adjusted for:	(2 381)	(127 286)	(19 567)
– fair value gain on investment property	(3 126)	(144 866)	(19 701)
– income tax effect	745	17 580	134
Headline earnings (linked units)	146 749	178 419	67 276
Adjustment resulting from straight-lining of rental revenue	(2 502)	(17 254)	(6 306)
Fair value gain on investments	(35 863)	(20 255)	(14 374)
Fair value adjustment on interest rate swaps	17 432	13 656	(3 220)
Listing costs	–	3 197	3 197
Income tax effect	(342)	(988)	2 914
Distributable income	125 474	156 775	49 487
Less: distribution declared	(125 474)	(156 775)	(49 487)
Income not distributed	–	–	–
Headline earnings per A share (cents)	4,82	5,36	4,77
Headline earnings per B share (cents)	4,82	5,36	4,77
Headline earnings per A linked unit (cents)	55,62	76,09	28,96
Headline earnings per B linked unit (cents)	10,86	12,33	7,13

Basic earnings per share, basic earnings per linked unit, headline earnings per share and headline earnings per linked unit are based on the weighted average of 220 750 000 (Jun 2010: 201 782 877, Dec 2009: 186 392 192) shares/linked units in issue during the period.

ABRIDGED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited for the six months ended Dec 2010 R'000	Restated for the nine months ended Jun 2010 R'000	Restated for the three months ended Dec 2009 R'000
Cash inflow from operating activities	30 456	102 786	32 523
Cash outflow from investing activities	(394 208)	(2 817 830)	(2 677 236)
Cash inflow from financing activities	374 741	2 720 024	2 651 887
Increase in cash and cash equivalents	10 989	4 980	7 174
Cash and cash equivalents at beginning of period	4 980	–	–
Cash and cash equivalents at end of period	15 969	4 980	7 174

NOTES

1 PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the measurement and recognition requirements of IFRS, the AC500 standards, IAS34: Interim Financial Reporting, the JSE Listings Requirements and the requirements of the South African Companies Act.

The accounting policies adopted are consistent with those applied in the prior periods except for the recognition of deferred tax. In December 2010 the IASB released amendments to IAS 12 effective from 1 January 2012. These amendments impact on the rate at which deferred tax is recognised specifically on the fair value movement of the building component of investment property as it establishes a presumption that it will be recovered through disposal and hence will attract deferred tax at the capital gains tax rate. Fortress has elected the early adoption of these amendments and applied them retrospectively as required by IAS 8. It is the view of the board that the adoption of this policy results in more accurate and meaningful information.

The early adoption had no effect on the December 2009 results.

The early adoption had the following effect on the June 2010 results: deferred tax balance R16 092 000 decrease; income tax expense R16 092 000 decrease; basic earnings per A and B share and basic earnings per A and B linked unit 3,99 cents increase and no effect on headline earnings per share and per linked unit for both A and B units.

This report was not audited or reviewed by the company's auditors.

2 SUMMARY OF FINANCIAL PERFORMANCE

	Unaudited six months ended Dec 2010	Restated six months ended Jun 2010	Restated three months ended Dec 2009
Distribution per A linked unit (cents)	50,80	48,38	24,19
Distribution per B linked unit (cents)	6,04	4,79	2,36
A linked units in issue	220 750 000	201 782 877	186 392 192
B linked units in issue	220 750 000	201 782 877	186 392 192
Net asset value per combined linked unit*	R11,08	R10,82	R10,20
Net asset value per A linked unit	R11,08 [#]	R9,92 [#]	R9,42 [§]
Net asset value per B linked unit	–	R0,90	R0,78
Gearing ratio**	22,6%	22,5%	28,5%

*Net asset value includes total equity attributable to equity holders and linked debentures.

[#]60-day volume weighted average trading price at reporting date limited to net asset value per combined linked unit.

[§]Volume weighted average trading price since listing.

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

3 HEDGED BORROWINGS

Expiry	Amount R'million	Interest rate	% of borrowings
<i>Interest rate swaps*</i>			
March 2011	50,0	7,11%	6,1%
September 2011	100,0	7,37%	12,2%
March 2012	50,0	7,41%	6,1%
September 2012	100,0	7,77%	12,2%
March 2013	50,0	7,77%	6,1%
September 2013	100,0	8,04%	12,2%
March 2014	50,0	8,05%	6,1%
July 2014	50,0	7,18%	6,1%
August 2014	100,0	6,83%	12,2%
September 2014	100,0	8,24%	12,2%
May 2015	50,0	7,87%	6,1%
September 2015	100,0	8,36%	12,2%
June 2016	100,0	7,95%	12,2%
August 2016	100,0	7,19%	12,2%
Hedged borrowings	1 100,0		134,2%
Variable rate borrowings	(277,9)		(34,2)%
Total borrowings**	822,1		100,0%

*Fortress pays the fixed rate and receives the 3-month Jibar floating rate on the swaps.

**Total borrowings comprise the level of external interest-bearing borrowings.

4 LEASE EXPIRY PROFILE

Lease expiry	Based on rentable area	Based on contractual rental income
Vacant	5,9%	-
June 2011	16,3%	14,7%
June 2012	28,2%	28,6%
June 2013	19,8%	23,4%
June 2014	10,3%	12,9%
June 2015	6,2%	7,5%
>June 2015	13,3%	12,9%
Total	100,0%	100,0%

5 SEGMENTAL ANALYSIS

	Dec 2010 R'000	Jun 2010 R'000	Dec 2009 R'000
Rental revenue			
Retail	111 267	137 000	45 493
Industrial	72 798	109 512	38 718
Commercial	24 766	42 850	11 794
Residential	4 117	-	-
Total	212 948	289 362	96 005

	Dec 2010 R'000	Jun 2010 R'000	Dec 2009 R'000
Profit before net finance costs			
Retail	72 107	109 288	42 055
Industrial	57 314	154 654	33 525
Commercial	18 530	90 273	15 645
Residential	3 744	-	-
Investments and other	40 311	23 068	12 802
Total	192 006	377 283	104 027

6 PAYMENT OF INTERIM DISTRIBUTION

The board has approved and notice is hereby given of interim interest distributions (distribution no 3) of 50,80 cents per A linked unit and 6,04 cents per B linked unit for the six months ended 31 December 2010.

The last date to trade linked units *cum* distribution will be Friday, 11 March 2011 and trading will commence ex distribution on Monday, 14 March 2011. The record date to participate in the distribution will be Friday, 18 March 2011.

Linked unit certificates may not be dematerialised or rematerialised between Monday, 14 March 2011 and Friday, 18 March 2011, both days inclusive. Payment of the distribution will be made to linked unitholders on Tuesday, 22 March 2011.

In respect of dematerialised linked unitholders, the distribution will be transferred to the Central Securities Depository Participant accounts/broker accounts on Tuesday, 22 March 2011. Certificated linked unitholders' distribution payments will be posted on or about Tuesday, 22 March 2011.

Directors

Jeff Zidel (chairman) Mark Stevens* (managing director)
Kura Chihota Des de Beer* Nick Hanekom* Nontando Kunene
Jannie Moolman Djurk Venter (*Executive)

Company secretary

Stephanie Botha

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