



INTEGRATED REPORT

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**2011**



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**THIS FINANCIAL YEAR WAS A VERY SUCCESSFUL YEAR FOR FORTRESS. IN THE 2010 CALENDAR YEAR, THE FORTRESS B UNITS' ("FFB") WERE THE BEST-PERFORMING LISTED PROPERTY SHARE ON THE JSE, SHOWING A RETURN OF 67,9%. THE FORTRESS A UNITS ("FFA") SHOWED A RETURN OF 24,6%.**



The final distributions for the six months ended 30 June 2011 were 50,80 cents for FFA (5% growth as per the Fortress Debenture Trust Deed) and 6,63 cents for FFB (38,4% growth over the prior comparative period).

The liquidity has also been heartening with 101,3 million FFA and 32,5 million FFB being traded on the JSE during this financial year.

Management has been extremely active and successful in selling non-strategic properties. Extensions and refurbishments are, and will continue to be, a very important focus. New acquisitions will target shopping centres in areas with high volume of pedestrian traffic, close to transport nodes, with predominantly national tenants. These shopping centres benefit hugely from the surrounding communities receiving government social grants.

I am pleased to report that during this financial year a R428,3 million Black Economic Empowerment transaction was concluded with Amber Peek Investments Proprietary Limited, whose shareholders are The Siyakha Education Trust and two companies owned by 59 black individuals. The primary function of The Siyakha Education Trust is to aid black education, with St. John's College in Mthatha being the latest recipient school to benefit from the installation of a computer room with 31 computers, as well as the renovation of other facilities.

I wish to express my appreciation to my fellow board members for their time, commitment and dedication to both board and committee meetings. It is exceptional that there was a 100% attendance at all board and committee meetings.

A big thank you to Des de Beer, who has been a director since the listing of Fortress and who left the board of directors in May 2011, for his valuable contribution during his tenure. Also thank you to Nick Hanekom for your large contribution as previous financial director. Welcome to Wiko Serfontein who joined the board of directors in May 2011 as financial director.

Considerable emphasis has been placed on corporate governance. The majority of the directors are independent non-executive directors. All committees are operating efficiently and effectively, with the audit, investment, nominations, remuneration and risk committees having a majority of independent non-executive directors.

I also wish to thank management, our company secretary, corporate advisors and auditors for their hard work, diligence and dedication.

Fortress is well-positioned and has a solid foundation for another strong performance in the 2012 financial year.

A handwritten signature in black ink, appearing to read 'J. Zidel'. The signature is stylized and cursive.

**Jeff Zidel**

**Independent non-executive chairman**

## BOARD OF DIRECTORS

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### **JEFFREY (JEFF) NATHAN ZIDEL (60)**

Independent non-executive chairman

Jeff has been a successful property developer and investor and has been involved in all aspects of the property industry for the last 40 years. He was three times past president of the Roodepoort Chamber of Commerce. He was the winner of the 2010 Absa Jewish Achiever Award for Listed Companies. He was a co-founder of Resilient Property Income Fund and is the chairman of Property Index Tracker Managers ("Proptrax"), an ETF listed on the JSE. He is also a non-executive director of New Europe Property Investments plc ("Nepi").



### **MARK WALTER STEVENS (43)**

Managing director and chief executive officer

Mark has been involved in the commercial and industrial property industry for over 25 years, working as an independent and corporate broker, private investor and developer. His career has included 10 years with Old Mutual Properties and another three years with the Imperial Group. Since 2004, he has concentrated on building a private portfolio.



### **KURAUWONE (KURA) NDAKASHYA FRANCIS CHIHOTA (39)**

Independent non-executive director

**BCom, Post Graduate Diploma: Business Administration,  
Real Estate Management Programme (Harvard)**

Kura started his career with Bradford McCormack as a commercial broker and later joined Marriott Property Services and then Kagiso Property Holdings. He is a past chairman of SAPOA in Gauteng and remains an active member. Kura is managing director of Leapfrog Property Group (Commercial), a trustee of the Property Association and deputy chairman of the Johannesburg Housing Company.



### **NICOLAAS (NICK) WILLEM HANEKOM (32)**

Executive director

**BAcc (Hons), CA(SA)**

Nick completed his articles with PricewaterhouseCoopers ("PwC") in Johannesburg whereafter he joined PwC London. On his return to South Africa in August 2005 he was employed by Resilient as company secretary. Nick is the financial director of Resilient Property Income Fund Limited.

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### **NONTANDO THELMA KUNENE (55)**

Independent non-executive director

**B.Sc Quantity Surveying**

Director and co-founder of Mahlati Quantity Surveyors, Nontando's work covers all aspects of quantity surveying and cost engineering. Experience has been gleaned in her area of expertise at Farrow Laing, du Toit Lombard & Malan and the Department of Works and Energy in Transkei. Nontando also ran the quantity surveying section focusing specifically on Soweto while at du Toit Lombard. She is a chairperson of Imbumba Aganang Proprietary Limited.



### **JOHANNES (JANNIE) ZACHARIAS MOOLMAN (59)**

Independent non-executive director

**BCom (Accounting), Post Graduate Diploma: Property (MDP)**

Jannie has been involved in the property industry for many years and served as a member on several boards of society. He is a former President of the Polokwane Chamber of Commerce and Industry and a former mayor of Polokwane. Jannie joined the Moolman group of companies in 1973 and is currently the managing director.



### **DJURK PETER CLAUDIUS VENTER (43)**

Independent non-executive director

**BCompt (Hons), CA(SA)**

Djurk started his career with the Department of Inland Revenue in the insurance and financial institution assessing division. In 1996 he started an audit practice, Treisman Venter and Associates. In 2004 he joined Glass, Tucker and Venter (Chartered Accountants and Auditors) as partner. Djurk was a non-executive director and chairman of the audit committee of Diversified Property Fund Limited. He is currently a director of Proptrax.



### **WILLEM JAKOB (WIKO) SERFONTEIN (37)**

Financial director

**BCompt (Hons), CA(SA)**

Wiko completed his articles with PwC in 1999, after which he joined the transaction services division for a period of six years focusing on due diligence work. Wiko joined Ernst & Young Corporate Finance thereafter for two years. He joined the Resilient group in April 2009 and was company secretary of Pangbourne Properties Limited.



## BOARD OF DIRECTORS (continued)

### ATTENDANCE AT BOARD AND SUB-COMMITTEE MEETINGS

Director	Board	Investment committee	Audit committee	Risk committee	Nomination committee	Remuneration committee
Jeff Zidel (chairman of the board and nomination committee) <sup>§</sup>	5 / 5				1 / 1	1 / 1
Kura Chihota* (chairman of the risk committee) <sup>#</sup>	5 / 5	3 / 3	2 / 2	1 / 1		
Des de Beer**	5 / 5					
Nick Hanekom <sup>^</sup>	5 / 5					
Nontando Kunene*** <sup>§#</sup>	5 / 5	2 / 2	4 / 4	1 / 1	1 / 1	1 / 1
Jannie Moolman (chairman of the investment committee) <sup>#</sup>	5 / 5	3 / 3		1 / 1		
Mark Stevens	5 / 5	3 / 3				
Djurk Venter (chairman of the audit and remuneration committees) <sup>§</sup>	5 / 5		4 / 4		1 / 1	1 / 1
Wiko Serfontein****	0 / 0					

<sup>§</sup>Member of the nomination committee constituted on 25 November 2010.

<sup>#</sup>Member of the risk committee constituted on 25 November 2010.

\*Kura Chihota was appointed to the audit committee on 25 November 2010.

\*\*Des de Beer resigned from the board on 20 May 2011.

\*\*\*Nontando Kunene was appointed to the investment committee on 25 November 2010.

\*\*\*\*Wiko Serfontein was appointed to the board on 20 May 2011.

<sup>^</sup>Nick Hanekom resigned from the board on 25 August 2011.

## BENEFICIAL UNITHOLDING OF DIRECTORS AND OFFICERS

### Fortress Income Fund Limited – A units

At 30 June 2011	Direct holding	Indirect holding	Associate holding	Total units held	Percentage of issued units
Jeff Zidel	337 686	90 900	90 905	519 491	0,2%
Mark Stevens	–	5 892 751	–	5 892 751	2,6%
Stephanie Botha	350 000	–	–	350 000	0,2%
Jannie Moolman	–	50 000	–	50 000	–
Wiko Serfontein	–	100 000	–	100 000	–
	<b>687 686</b>	<b>6 133 651</b>	<b>90 905</b>	<b>6 912 242</b>	<b>3,0%</b>

### Fortress Income Fund Limited – B units

At 30 June 2011	Direct holding	Indirect holding	Associate holding	Total units held	Percentage of issued units
Jeff Zidel	2 391 362	181 800	181 810	2 754 972	1,2%
Mark Stevens	–	8 217 751	–	8 217 751	3,6%
Stephanie Botha	650 000	–	–	650 000	0,3%
Nick Hanekom	–	4 600 000	–	4 600 000	2,0%
Jannie Moolman	–	50 000	–	50 000	–
Wiko Serfontein	–	381 040	–	381 040	0,2%
	<b>3 041 362</b>	<b>13 430 591</b>	<b>181 810</b>	<b>16 653 763</b>	<b>7,3%</b>

Subsequent to the date of this financial report Mark Stevens and Wiko Serfontein indirectly disposed of 1 200 000 and 100 000 Fortress A linked units respectively. Mark Stevens indirectly acquired 850 000 Fortress A linked units and 850 000 Fortress B linked units. Wiko Serfontein indirectly acquired 200 000 Fortress A linked units and 216 835 Fortress B linked units.

### Fortress Income Fund Limited – A units

At 30 June 2010	Direct holding	Indirect holding	Associate holding	Total units held	Percentage of issued units
Jeff Zidel	337 686	90 900	90 905	519 491	0,3%
Mark Stevens	–	4 892 751	–	4 892 751	2,4%
Stephanie Botha	250 000	–	–	250 000	0,1%
Des de Beer	–	550 000	500	550 500	0,3%
Nick Hanekom	–	562 500	–	562 500	0,3%
Jannie Moolman	–	50 000	–	50 000	–
	<b>587 686</b>	<b>6 146 151</b>	<b>91 405</b>	<b>6 825 242</b>	<b>3,4%</b>

### Fortress Income Fund Limited – B units

At 30 June 2010	Direct holding	Indirect holding	Associate holding	Total units held	Percentage of issued units
Jeff Zidel	1 083 136	181 800	181 810	1 446 746	0,7%
Mark Stevens	–	5 492 751	–	5 492 751	2,7%
Stephanie Botha	550 000	–	–	550 000	0,3%
Des de Beer	–	1 897 393	1 000	1 898 393	0,9%
Nick Hanekom	–	2 065 000	–	2 065 000	1,0%
Jannie Moolman	–	50 000	–	50 000	–
	<b>1 633 136</b>	<b>9 686 944</b>	<b>182 810</b>	<b>11 502 890</b>	<b>5,6%</b>



## UNIT STRUCTURE

The Fortress A and B linked unit structure offers investors two different risk and reward propositions. The distribution of the A units escalates at 5% per annum until June 2014 and thereafter at the lower of CPI and 5%. These units have preferential entitlements to income distributions and to capital participation on winding up. The remaining distributable income accrues to the B units.

## NATURE OF THE BUSINESS

Fortress is a property loan stock company. Its subsidiaries own a diversified property portfolio of 114 retail, industrial and office properties from which rental income streams are derived. Fortress also owns a portfolio of listed property securities from which distribution income is derived.

## STRATEGIC DIRECTION

Fortress's strategy will be to increase its investment in rural and CBD retail properties situated close to transport nodes. Fortress will continue to reduce its exposure to small and specialised industrial properties over time.

## DISTRIBUTABLE EARNINGS

Fortress achieved total distributions for the year ended 30 June 2011 of 114,27 cents against 79,72 cents for the previous financial period of nine months, an increase of 7,53% on the annualised distribution for the previous financial period. The distributions for the six months ended 30 June 2011 are 50,80 cents and 6,63 cents per A and B linked unit respectively, representing growth of 5,0% and 38,4% over the comparative period.

## COMMENTARY ON RESULTS

In a difficult economic environment, vacancies decreased to 5,6% from 5,7% at 30 June 2010. Vacancies are expected to decrease further as the economy improves.

## DISPOSALS

Fortress disposed of the following properties during the period under review:

Property name	Book value/ purchase price (R'000)	Sales price (R'000)	Exit yield	Date transferred
213 Monte Carlo Crescent Kyalami	6 700	6 700	*	Sep 2010
5 Handel Road Ormonde	38 500	38 500	9,0%	Dec 2010
London Lane (Erf 65 only)	1 008	1 500	8,1%	Dec 2010
York Road Mthatha (40% only)	17 320	18 880	11,7%	Dec 2010
Fort Gale Mthatha (40% only)	23 879	24 246	11,4%	Dec 2010
21 Mandy Road	4 300	4 300	9,2%	Jan 2011
Sucosa House Kramerville	14 000	14 000	10,3%	Feb 2011
30 Coronation Road Maitland	12 700	12 700	6,9%	Mar 2011
619 Voortrekker Road Gezina	39 900	39 900	12,0%	Mar 2011
223 Monte Carlo Crescent Kyalami	6 700	6 700	9,6%	Mar 2011
595 Sydney Road Congella Durban	85 000	69 000	10,0%	Jun 2011
Taxi City East London	15 180	24 000	10,0%	Pending
Bryanston Ridge Office Park (portion only)	5 973	7 750	7,7%	Pending
Silver Creek Centre Centurion	15 100	15 750	11,9%	Pending
Bayside Centre Mossel Bay	30 844	26 800	10,2%	Pending
Shorthorn Street City Deep	14 000	22 100	10,0%	Pending
City Centre Carltonville	8 000	6 000	*	Pending

\*Vacant property.

## PROPERTY ACQUISITIONS

The following acquisitions were made during the year:

### Murray & Roberts portfolio

The 16 properties purchased from Murray & Roberts for R373,4 million were transferred during the financial year. These properties were purchased at an average yield of 11%.

### Other acquisitions

Property name	Sector	GLA (m <sup>2</sup> )	Purchase price (R'000)	Yield
Fort Gale Mthatha (60%)	Residential	10 728*	43 216	9,7%
Middelburg Plaza	Retail	7 897	62 000	11,0%
Philippi Shopping Centre	Retail	8 331	60 500	10,3%
Makhaza Shopping Centre	Retail	8 681	51 500	11,5%
Game Makhado (50%)	Retail	4 758	13 250	11,0%
Shoprite Kokstad <sup>†</sup>	Retail	7 917	38 000	12,0%

\*Represents 100% of the GLA.

<sup>†</sup>Not transferred at 30 June 2011.

### REFURBISHMENTS AND EXTENSIONS

The R16 million refurbishment of Sinoville Shopping Centre was completed in June 2011. The 1 800m<sup>2</sup> extension to Evaton Plaza to accommodate Pick 'n Pay was completed in November 2010 on schedule and within budget at a cost of R8,4 million (Fortress' 50% interest).

Fortress is evaluating refurbishments and extensions to the following properties:

- Pick 'n Pay Secunda, Checkers Secunda and Secunda Village;
- Monument Centre;
- Biyela Shopping Centre;
- Philippi Shopping Centre; and
- Game Makhado.

### LISTED EQUITIES

As a hybrid fund, Fortress invests both in direct property and listed property securities.

Investments	Number of units/shares	% of units/shares in issue	Carrying value (R'000)
Capital Property Fund	37 000 000	2,30%	303 770
New Europe Property Investments plc	3 327 585	3,76%	106 482
Resilient Property Income Fund Limited	2 000 000	0,77%	62 700

Subsequent to the financial year-end Fortress acquired 25 500 000 linked units in Vukile Property Fund Limited ("Vukile") at a price of R13,10 per linked unit, representing 7,26% of Vukile's units in issue.

### FUNDING

Fortress accepted an additional R135 million facility from RMB. The gearing of 24,8% at 30 June 2011 increased to 30,4% following the acquisition of the interest in Vukile. The board's target range for gearing is between 30% and 35%.

### SUMMARY OF FINANCIAL PERFORMANCE

	Audited six months Jun 2011	Unaudited six months Dec 2010	Restated six months Jun 2010	Restated three months Dec 2009
Distribution per A linked unit (cents)	50,80	50,80	48,38	24,19
Distribution per B linked unit (cents)	6,63	6,04	4,79	2,36
A linked units in issue	231 000 000	220 750 000	201 782 877	186 392 192
B linked units in issue	231 000 000	220 750 000	201 782 877	186 392 192
Net asset value per combined linked unit*	R12,30	R11,08	R10,82	R10,20
Net asset value per A linked unit	R10,88 <sup>#</sup>	R11,08 <sup>#</sup>	R9,92 <sup>#</sup>	R9,42 <sup>#</sup>
Net asset value per B linked unit	R1,42	–	R0,90	R0,78
Gearing ratio**	24,8%	22,6%	22,5%	28,5%

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

<sup>#</sup>60-day volume weighted average trading price at reporting date limited to net asset value per combined linked unit.

<sup>§</sup>Volume weighted average trading price since listing.

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

## MAJOR INCOME AND EXPENSE ITEMS

The major income and expense items for the year ended 30 June 2011 were as follows:

	Year ended 30 June 2011 (R'000)
<b>Income</b>	
Basic income	359 094
Recovery – electricity	53 674
Recovery – refuse and rates	25 422
Recovery – water and sewerage	7 993
Recovery – other	7 783
Straight-lining of rental revenue adjustment	11 949
	<u>465 915</u>
<b>Expenses</b>	
Amortisation of letting commission	(244)
Amortisation of tenant installation costs	(610)
Contractual expenses	(16 701)
Electricity	(49 134)
Insurance	(2 952)
Letting commission	(1 878)
Leasehold rental payments	(2 072)
Other utilities	(769)
Property management fee	(11 774)
Refuse and rates	(32 188)
Repairs and maintenance	(9 341)
Tenant installation costs	(407)
Tenant arrears written off	(4 292)
Water and sewerage	(8 108)
Other expenses	(7 449)
	<u>(147 919)</u>
	<u>317 996</u>

## PROSPECTS

Although Fortress is operating in a challenging property market, considerable progress has been made in enhancing the quality of the portfolio through acquisitions, disposals and redevelopments. Further value will be extracted from the recent acquisitions.

The board is confident that Fortress will achieve growth in distributions of approximately 10% for the 2012 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 audited or reviewed by Fortress' auditors.

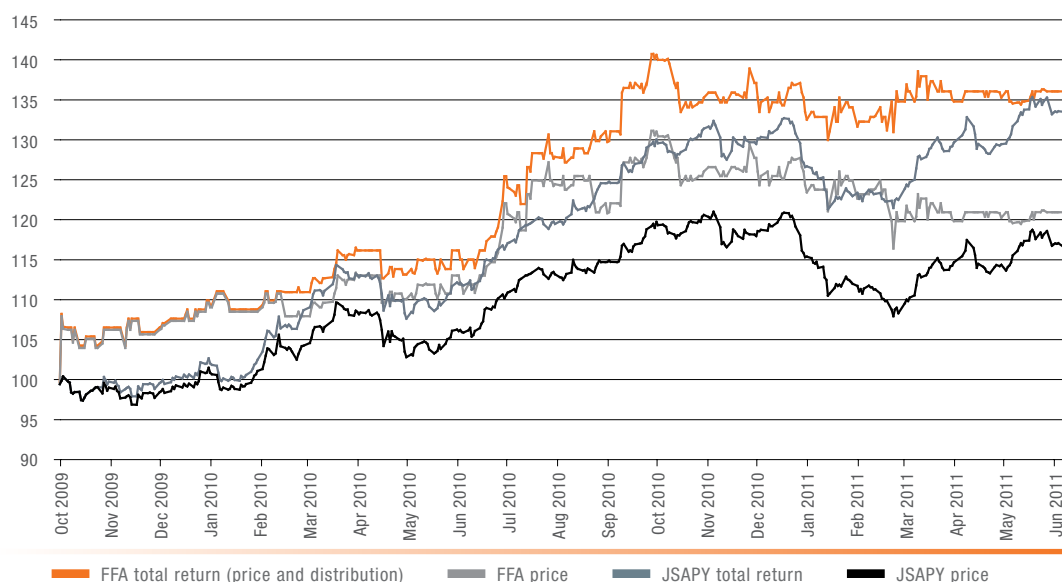


## UNIT PERFORMANCE

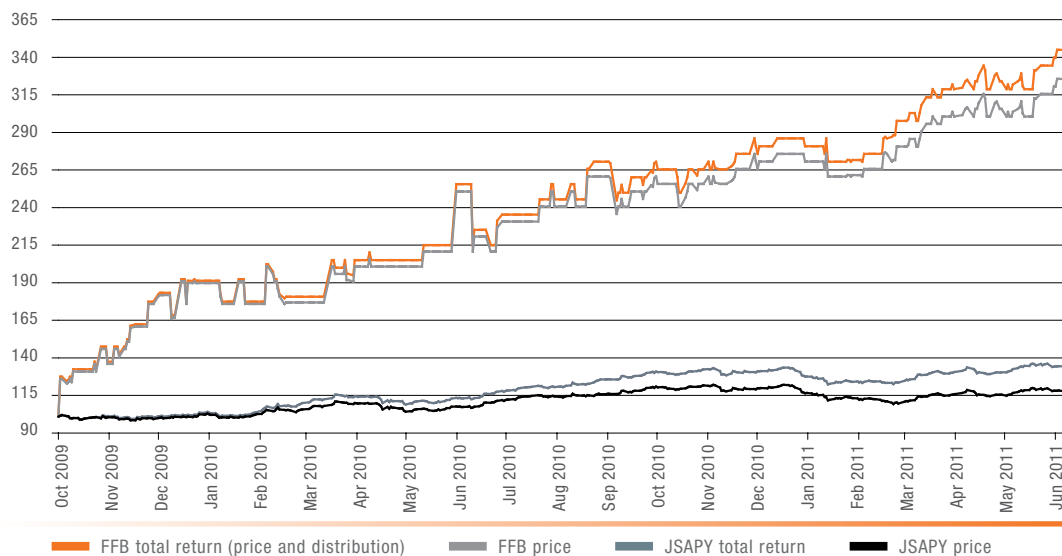
The board of directors is committed to creating sustainable stakeholder value by managing the portfolio, identifying and disposing of under-performing or non-core assets and maximising returns on the core assets.

The graphs below indicate the performance of the Fortress A and Fortress B units compared to the JSE South African Property Index on both a price return and total return basis. The performance of the Fortress A and Fortress B units are indexed using a base of 100.

### FFA RELATIVE PERFORMANCE



### FFB RELATIVE PERFORMANCE



## DIRECTORS' REPORT (continued)

### REMUNERATION REPORT

The remuneration committee determines the remuneration policy of Fortress and is mandated by the board to set the remuneration and incentivisation of all employees, including executive directors. In addition, the remuneration committee recommends directors' fees payable to non-executive directors and members of board sub-committees to the board for recommendation to unitholders for approval at the annual general meeting. The remuneration committee members are Jannie Moolman, Djurk Venter and Jeff Zidel. Attendance of directors at the various board and sub-committee meetings is disclosed on page 6.

The remuneration policy is aligned with the strategic objectives of the Fund to create long-term, sustainable value for stakeholders. Remuneration is a combination of salary, short-term incentivisation and long-term incentivisation in order to attract and retain motivated, high-calibre executives whose interests are aligned with the interests of unitholders.

Executive salaries are competitive in the market and increases are determined with reference to individual performance, inflation and market-related factors.

Bonuses based on individual and Fund performance is an effective means of short-term incentivisation. These are awarded based on the performance of the Fund taking into account market conditions.

The aim of long-term incentivisation is to incentivise growth in distribution. Long-term incentivisation is achieved through the allocation of units through The Fortress Unit Purchase Trust. The remuneration committee decides on the number of units to be allocated based on individual performance. Fortress Income Fund issues units to The Fortress Unit Purchase Trust. On acceptance of the units by the individual, The Fortress Unit Purchase Trust provides loan financing to acquire the units.

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

	For services as a director 2011 (R'000)	For services as a director 2010 (R'000)
Jeff Zidel (chairman of the board and nomination committee) <sup>§</sup>	242	109
Kura Chihota* (chairman of the risk committee) <sup>#</sup>	283	109
Nontando Kunene** <sup>§#</sup>	299	138
Jannie Moolman (chairman of the investment committee) <sup>#</sup>	283	109
Djurk Venter (chairman of the audit and remuneration committees) <sup>§</sup>	258	138
	<b>1 365</b>	<b>603</b>

<sup>§</sup>Member of the nomination committee constituted on 25 November 2010.

\*Kura Chihota was appointed to the audit committee on 25 November 2010.

\*\*Nontando Kunene was appointed to the investment committee on 25 November 2010.

<sup>#</sup>Member of the risk committee constituted on 25 November 2010.

### REMUNERATION OF EXECUTIVE DIRECTORS

	Remuneration 2011 (R'000)	Share-based payments 2011 (R'000)	Remuneration 2010 (R'000)	Bonus 2010 (R'000)	Share-based payments 2010 (R'000)
Mark Stevens	1 960	760	1 193	416	275
Des de Beer*	461	608	210	23	275
Nick Hanekom	367	380	94	11	213
Wiko Serfontein**	34	–	–	–	–
	<b>2 822</b>	<b>1 748</b>	<b>1 497</b>	<b>450</b>	<b>763</b>

\*Des de Beer resigned from the board on 20 May 2011.

\*\*Wiko Serfontein was appointed to the board on 20 May 2011.

## ANALYSIS OF LINKED UNITHOLDERS

### UNITHOLDER SPREAD AT 30 JUNE 2011 AS DEFINED IN TERMS OF THE JSE LISTINGS REQUIREMENTS

#### Fortress Income Fund Limited – A linked units

	Number of unitholders	Number of units held	Percentage of issued units
Public	1 459	176 172 117	76,3%
Non-public	57	54 827 883	23,7%
	<b>1 516</b>	<b>231 000 000</b>	<b>100,0%</b>

Size of holding	Number of unitholders	Number of units held	Percentage of issued units
up to 2 500 units	396	458 639	0,2%
2 501 to 10 000 units	599	3 460 486	1,5%
10 001 to 100 000 units	319	11 248 570	4,9%
100 001 to 1 000 000 units	151	47 464 709	20,5%
1 000 001 to 3 500 000 units	40	75 467 334	32,7%
More than 3 500 000 units	11	92 900 262	40,2%
	<b>1 516</b>	<b>231 000 000</b>	<b>100,0%</b>

Registered unitholders owning 5% or more of issued units	Number of units held	Percentage of issued units
Amber Peek Investments Proprietary Limited	37 000 000	16,0%
	<b>37 000 000</b>	<b>16,0%</b>

Control of more than 5% of issued units	Number of units controlled	Percentage of issued units
Coronation Fund Managers	73 250 746	31,7%
Amber Peek Investments Proprietary Limited	37 000 000	16,0%
STANLIB	36 195 266	15,7%
	<b>146 446 012</b>	<b>63,4%</b>

#### Fortress Income Fund Limited – B linked units

	Number of unitholders	Number of units held	Percentage of issued units
Public	507	54 535 953	23,6%
Non-public	91	176 464 047	76,4%
	<b>598</b>	<b>231 000 000</b>	<b>100,0%</b>

Size of holding	Number of unitholders	Number of units held	Percentage of issued units
up to 2 500 units	111	76 892	–
2 501 to 10 000 units	203	1 374 692	0,6%
10 001 to 100 000 units	192	7 232 713	3,1%
100 001 to 1 000 000 units	61	19 759 691	8,6%
1 000 001 to 3 500 000 units	20	37 886 280	16,4%
More than 3 500 000 units	11	164 669 732	71,3%
	<b>598</b>	<b>231 000 000</b>	<b>100,0%</b>

Registered unitholders owning 5% or more of issued units	Number of units held	Percentage of issued units
Resilient Property Income Fund Limited	63 000 000	27,3%
Capital Property Fund	45 000 000	19,5%
RCG Trade & Finance Proprietary Limited	14 593 789	6,3%
The Nano Trust	12 284 161	5,3%
	<b>134 877 950</b>	<b>58,4%</b>

Control of more than 5% of issued units	Number of units controlled	Percentage of issued units
Resilient Property Income Fund Limited	63 000 000	27,3%
Capital Property Fund	45 000 000	19,5%
RCG Trade & Finance Proprietary Limited	14 593 789	6,3%
The Nano Trust	12 284 161	5,3%
	<b>134 877 950</b>	<b>58,4%</b>

## KEY RISK FACTORS

Key risk	Business impact	Mitigation of the risk
South Africa is experiencing significant increases in administered prices including electricity, rates and municipal levies.	Fortress is bearing the increased cost of utilities that cannot be recovered from tenants. This reduces distributable income.	Energy saving technologies are being implemented throughout the portfolio in order to reduce utility costs.
The ability of tenants to absorb the increasing cost of occupancy is limited.	The increased cost of occupancy may result in more tenant business failures and legal action leading to increased vacancies and increased legal costs and bad debts.	Tenant arrears are closely monitored. Asset managers meet with tenants on a regular basis in order to mitigate legal action and bad debts.
Municipal service delivery is deteriorating and municipalities are not billing correctly with a large number of municipalities no longer reading electricity or water meters.	Fortress is not being billed the correct utility amounts on a monthly basis. Utilities recovered from tenants are based on inaccurate billings.	Fortress has installed its own meters and employed third party meter readers. This data is provided to the municipalities in order for Fortress to correctly recover utility charges from tenants.
The difficult economic climate has an adverse effect on the ability to let vacant space.	Vacant space reduces rental income and expenses are incurred regardless of whether the property is tenanted. This results in less distributable income.	Asset managers meet with tenants on a regular basis to ensure that their concerns are addressed. Rentals are offered at market-related rates and incentives are offered to brokers in order to let vacant space. Buildings are well maintained.

## CORPORATE GOVERNANCE REVIEW

The board of directors endorses the code of corporate practices and conduct as set out in the King III report and confirms that the company is compliant with the provisions thereof in all material respects since date of listing. The board has identified the following focus areas for the year ending 30 June 2012:

King III requirement	Principles not fully applied
2.18 The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.	King III requires that an annual review of the independence of directors is performed. No such review was performed in 2011 but will be undertaken in 2012.
2.22 The evaluation of the board, its committees and the individual directors should be performed every year.	No evaluation of the board, sub-committees or individual directors was undertaken in 2011. These will be performed in 2012.

## COMPOSITION OF THE BOARD OF DIRECTORS

The board is comprised of three executive directors and five independent non-executive directors. All directors serve for a maximum period of three years and are subject to retirement by rotation and re-election by members in general meeting. Board appointments are made in terms of the policy on nominations and appointments, such appointments are formal and transparent and a matter for the board as a whole.

None of the directors have served for a term of longer than nine years.

## ROLE OF THE DIRECTORS

Ultimate control of the company rests with the board of directors while the executive management is responsible for the proper management of the company. To achieve this, the board is responsible for establishing the objectives of the company and setting a philosophy for investments, performance and ethical standards. Although quarterly board meetings are arranged every year, additional meetings are called should circumstances require it. Five board meetings were called during the 2011 financial year.

## FUNCTIONS OF THE BOARD

The board acknowledges that it is responsible for ensuring the following functions as set out in the board charter:

- good corporate governance and implementation of the code of corporate practices and conduct as set out in the King III report;
- that the group performs at an acceptable level and that its affairs are conducted in a responsible and professional manner; and
- the board recognises its responsibilities to all stakeholders.

## RESPONSIBILITIES OF THE BOARD

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

The board acknowledges its responsibilities as set out in the board charter in the following areas:

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

## INDEPENDENCE OF THE DIRECTORS

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

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

The following independent directors chair the various sub-committees of the board:

- Audit                     Djurk Venter
- Investment             Jannie Moolman
- Nomination            Jeff Zidel
- Remuneration         Djurk Venter
- Risk                     Kura Chihota

### AUDIT COMMITTEE

The primary role of the audit committee is to ensure the integrity of financial reporting and the audit process. In pursuing these objectives, the audit committee oversees relations with the external auditors. The committee also monitors developments in corporate governance to ensure the group continues to apply high and appropriate standards.

The audit committee presently comprises: Kura Chihota, Nontando Kunene and Djurk Venter (chairman), all of whom are independent non-executive directors. The board, in consultation with the audit committee chairman, makes appointments to the committee. The board has determined that the committee members have the skills and experience necessary to contribute meaningfully to the committee's deliberations. In addition, the chairman has the requisite experience in accounting and financial management.

The committee met four times during the financial year.

In fulfilling its responsibility of monitoring the integrity of financial reports to unitholders, the audit committee has reviewed accounting principles, policies and practices adopted in the preparation of financial information and has examined documentation relating to the integrated report and interim financial report. The clarity of disclosures included in the financial statements was reviewed by the audit committee, as was the basis for significant estimates and judgements. The audit committee is further satisfied that the financial director is sufficiently competent.

### EXTERNAL AUDIT

A key factor that may impair the auditors' independence is a lack of control over non-audit services provided by the external auditors. In essence, the external auditors' independence is deemed to be impaired if the auditors provide a service which:

- results in auditing of own work by the auditors;
- results in the auditors acting as a manager or employee of the group;
- puts the auditors in the role of advocate for the group; or
- creates a mutuality of interest between the auditors and the group.

Fortress addresses this issue through three primary measures, namely:

- disclosure of the extent and nature of non-audit services;
- the prohibition of selected services; and
- prior approval by the audit committee of non-audit services where the cost of the proposed assignment is likely to exceed R25 000.

Other safeguards in the policy include:

- the external auditors are required to assess periodically, in their professional judgement, whether they are independent of the group;
- the audit committee ensures that the scope of the auditors' work is sufficient and that the auditors are fairly remunerated; and
- the audit committee has primary responsibility for making recommendations to the board on the appointment, re-appointment and removal of the external auditors.

The audit committee considered information pertaining to the balance between fees for audit and non-audit work for the group in 2011 and concluded that the nature and extent of non-audit fees do not present a threat to the external auditors' independence. Furthermore, after reviewing a report from the external auditors on all their relationships with Fortress that might reasonably have a bearing on the external auditors' independence and the audit engagement partner and staff's objectivity, and the related safeguards and procedures, the committee has concluded that the external auditors' independence was not impaired. The audit committee approved the external auditors' terms of engagement, scope of work, the annual audit and the applicable levels of materiality. Based on written reports submitted, the committee reviewed, with the external auditors, the findings of their work and confirmed that all significant matters had been satisfactorily resolved.

The committee reviews audit plans for external audits and the outcome of the work performed in executing these plans. They further ensure that items identified for action are followed up. The external auditors report annually to the audit committee to confirm that they are and have remained independent from the group during the year.

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

### INTERNAL AUDIT

The company does not have a formalised internal audit department. This is primarily due to the fact that the majority of the property management functions have been outsourced to external property managers who are subjected to annual external audits. The audit committee continually examines the appropriateness of utilising independent internal auditors to periodically review activities of the company and service providers.

### ETHICAL PERFORMANCE

Fortress adopted a code of ethics during the year. The board is not aware of any transgressions during the year.

#### **INTERNAL FINANCIAL AND OPERATING CONTROLS**

A framework of financial reporting and operating controls has been established to provide reasonable assurance as to accurate and timeous reporting of financial information and general operation. The board reviewed and was satisfied with the effectiveness of the internal financial and operating controls, the process of risk management and the monitoring of legal governance compliance within the company.

#### **INVESTMENT COMMITTEE**

All acquisitions, disposals and capital expenditure are considered by the investment committee. The majority of investment committee members are independent non-executive directors with extensive experience and technical expertise in the commercial property industry.

#### **NOMINATION COMMITTEE**

The primary role of the nomination committee is to identify suitable candidates to be appointed to the board. The nominations committee recommends the individuals to the board for appointment.

#### **REMUNERATION COMMITTEE**

The remuneration committee is mandated by the board to set the remuneration and incentivisation of all employees, including executive directors. In addition, the remuneration committee recommends directors' fees payable to non-executive directors and members of board sub-committees. Further details are provided in the remuneration report.

#### **RISK COMMITTEE**

The risk committee is mandated by the board to ensure that a sound risk management and internal control system is maintained, to assist the board in discharging its duties relating to the safeguarding of assets and to ensure that the company has implemented an effective plan for risk management that will enhance the company's ability to achieve its strategic objectives.

The risk committee comprises Kura Chihota, Nontando Kunene and Jannie Moolman (chairman), all of whom are independent non-executive directors.

The committee was constituted during the current financial year and met once.

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

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

#### **PROMOTION OF ACCESS TO INFORMATION ACT**

There were no requests for information lodged with the company in terms of the Promotion of Access to Information Act No 2 of 2000.

#### **SPECIAL RESOLUTIONS PASSED**

During the year, a special resolution was passed authorising the company, either as lender or as surety or guarantor for a lender, or otherwise, from time to time, to provide financial assistance for the purchase of or subscription for its units to any company or trust, the majority of whose shareholders or beneficiaries (directly or indirectly) are "black persons" as defined in the Broad-based Black Economic Empowerment Act, 2003 (or any successor thereto) on the following terms:

- 1 the maximum aggregate capital amount (excluding interest, costs, charges, fees and expenses) of any such amounts lent or for which suretyships or guarantees are given may not exceed R300 million;
- 2 the maximum period for the repayment of any loan provided or for which suretyships or guarantees are given in terms hereof may not exceed 10 years; and
- 3 the minimum interest rate to be applied to any loan provided may not be less than the prime overdraft rate of interest from time to time publicly quoted as such by The Standard Bank of South Africa Limited.

#### **UNIT ISSUES**

There were three unit issues during the year.

- 1 Effective 23 September 2010, 11 817 123 Fortress A units were issued at R10,40 and 11 817 123 Fortress B units were issued at R2,30 per unit.
- 2 Effective 7 December 2010, 7 150 000 Fortress A units were issued at R10,75 per unit and 7 150 000 Fortress B units were issued at R2,47 per unit.
- 3 Effective 30 March 2011, 10 250 000 Fortress A units were issued at R10,80 per unit and 10 250 000 Fortress B units were issued at R2,80 per unit.



Fortress' approach to the concept of sustainability relates to the maintenance and enhancement of environmental, social and economic resources, in order to meet the needs of current and future generations. This is founded in a commitment to being a good corporate citizen, operating in a commercially sensible and socially responsible manner.

## ENVIRONMENTAL

Energy efficiency is foremost in the company's sustainability endeavours and to this end the need to practically and efficiently measure the use of utilities within the buildings. Fortress is currently engaged with various service providers on the metering of the buildings to provide the company with the correct metrics to make meaningful and informed decisions. The results of these metrics will inform Fortress' approach to new developments, refurbishments and extensions in order to maximise the return on implemented solutions.

In respect of all works, there is a focus on the fundamental architectural principles, one of which is building aspect, which helps to passively address the heat loads and natural lighting options available in the buildings. Since HVAC constitutes probably the largest percentage of energy consumption, in the region of 60%, in the majority of buildings new and retrofit systems will incorporate improved standards of insulation, shading, glazing, ventilation and efficient air conditioning plant. The approach to enhance efficiency will also incorporate dealing with education and adjustment of personal habits of people occupying the buildings, these include sensor switching, night flushing and changing set points according to seasonal changes. On new and replacement plant Fortress is utilising variable speed drive compressors and staged units to best balance demand and supply of air conditioned space. Building management systems are steadily improving and are currently being evaluated in specific applications where their cost benefit may justify their implementation.

Where possible, Fortress utilises the newer and more efficient lighting systems and incorporate rational design principles to maximise the lighting levels whilst reducing energy consumption on new works. The company will be retrofitting older buildings on a replacement basis with more efficient technologies and these include CFL, LED and T5 replacement lamps. Here too, education of users is paramount in adapting to sensor switching systems and reduced ambient lighting when areas are not occupied.

Water is a precious resource and in order to manage the utilisation, Fortress is focusing on the comprehensive measurement thereof. Furthermore, all new gardens and landscaping will be done on an indigenous basis to limit the need for irrigation. As standard practice, new and refurbishment works are being fitted with low flushing mechanisms and metered discharge taps to reduce consumption and limit waste. Timers on existing geysers and solar geysers are all part of reducing consumption and more recently the utilisation of heat pumps to reduce energy consumption.

Fortress is engaging with Eskom on an ongoing basis in terms of their demand side management programs and attends the green building conferences and other forums to remain abreast of international best practice, legal requirements and technical improvements. SANS 204 energy efficiency in buildings regulations is expected to be released this year and will have a significant impact on new buildings efficiency and hence sustainability into the future.

## ECONOMIC

During April 2011, Fortress concluded an empowerment transaction with Amber Peek Investments Proprietary Limited ("Amber Peek") to the value of R428,3 million. Amber Peek acquired 37 million Fortress A linked units and 10,25 million Fortress B linked units comprising 16,0% of FFA units and 4,4% of FFB units in issue. Amber Peek is effectively 100% black-owned; 48% by The Siyakha Education Trust (a trust established exclusively for the benefit of black education); 26% by Aquarella Investments 553 Proprietary Limited (owned by 50 black individuals from Thohoyandou); and 26% by Celtic Rose Investments 10 Proprietary Limited (owned by nine black individuals from Johannesburg).

## SOCIAL

The Siyakha Education Trust ("Siyakha") was established with the exclusive purpose of promoting black education in South Africa. Siyakha grants bursaries to students from previously disadvantaged backgrounds and communities. It also provides computer equipment and secure computer facilities to schools in underprivileged communities.

# PORTFOLIO STATISTICS

## TOTAL PORTFOLIO



LEASE EXPIRY BASED ON RENTABLE AREA

● Vacant	5,6%
● 30 June 2012	28,4%
● 30 June 2013	23,8%
● 30 June 2014	16,3%
● 30 June 2015	7,6%
● 30 June 2016	12,1%
● >30 June 2016	6,2%



LEASE EXPIRY BASED ON GROSS RENTALS

● 30 June 2012	31,7%
● 30 June 2013	24,9%
● 30 June 2014	16,1%
● 30 June 2015	7,9%
● 30 June 2016	12,9%
● >30 June 2016	6,5%

## RETAIL



LEASE EXPIRY BASED ON RENTABLE AREA

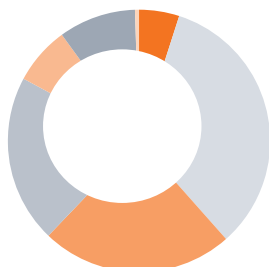
● Vacant	5,3%
● 30 June 2012	25,4%
● 30 June 2013	25,7%
● 30 June 2014	14,1%
● 30 June 2015	7,9%
● 30 June 2016	9,3%
● >30 June 2016	12,3%



LEASE EXPIRY BASED ON GROSS RENTALS

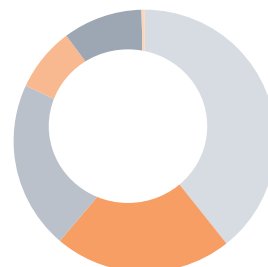
● 30 June 2012	30,2%
● 30 June 2013	28,8%
● 30 June 2014	15,7%
● 30 June 2015	7,0%
● 30 June 2016	8,6%
● >30 June 2016	9,7%

## INDUSTRIAL



LEASE EXPIRY BASED ON RENTABLE AREA

● Vacant	5,0%
● 30 June 2012	33,8%
● 30 June 2013	23,9%
● 30 June 2014	20,0%
● 30 June 2015	7,2%
● 30 June 2016	9,6%
● >30 June 2016	0,5%

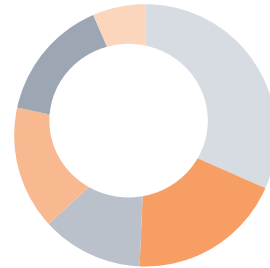


LEASE EXPIRY BASED ON GROSS RENTALS

● 30 June 2012	39,3%
● 30 June 2013	21,9%
● 30 June 2014	20,7%
● 30 June 2015	7,9%
● 30 June 2016	9,8%
● >30 June 2016	0,4%



## COMMERCIAL

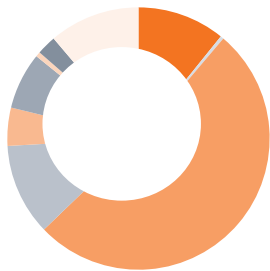


LEASE EXPIRY BASED ON RENTABLE AREA

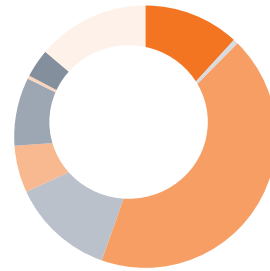
● Vacant	12,7%
● 30 June 2012	25,0%
● 30 June 2013	19,8%
● 30 June 2014	13,6%
● 30 June 2015	9,7%
● 30 June 2016	13,9%
● >30 June 2016	5,3%

LEASE EXPIRY BASED ON GROSS RENTALS

● 30 June 2012	31,6%
● 30 June 2013	19,1%
● 30 June 2014	12,5%
● 30 June 2015	15,2%
● 30 June 2016	15,1%
● >30 June 2016	6,5%



## TOTAL PORTFOLIO



GEOGRAPHICAL PROFILE BASED ON RENTABLE AREA

● Eastern Cape	10,8%
● Free State	0,4%
● Gauteng	51,6%
● KwaZulu-Natal	11,3%
● Limpopo	4,7%
● Mpumalanga	7,0%
● North West	0,6%
● Swaziland	2,4%
● Western Cape	11,2%

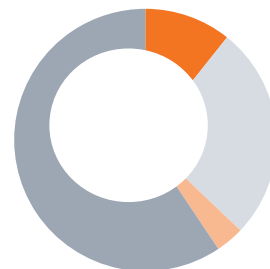
GEOGRAPHICAL PROFILE BASED ON GROSS RENTALS

● Eastern Cape	11,8%
● Free State	0,6%
● Gauteng	43,0%
● KwaZulu-Natal	12,7%
● Limpopo	5,8%
● Mpumalanga	8,4%
● North West	0,4%
● Swaziland	3,5%
● Western Cape	13,8%



SECTORAL PROFILE BASED ON RENTABLE AREA

● Commercial	7,8%
● Industrial	43,5%
● Residential	2,6%
● Retail	46,1%



SECTORAL PROFILE BASED ON GROSS RENTALS

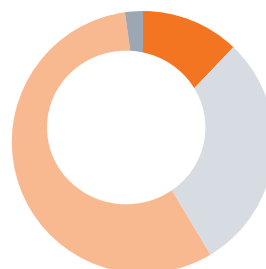
● Commercial	10,7%
● Industrial	26,4%
● Residential	3,5%
● Retail	59,4%

## PORTFOLIO STATISTICS (continued)



**VACANCY PER SECTOR**

Commercial	17,6%
Industrial	38,8%
Residential	-
Retail	43,6%



**VALUATION PER SECTOR**

Commercial	12,1%
Industrial	29,3%
Residential	56,4%
Retail	2,2%



**WEIGHTED AVERAGE RENTAL ESCALATION BY SECTOR**

Commercial	6,6%
Industrial	7,8%
Residential	-
Retail	7,0%



**TENANT PROFILE BASED ON RENTABLE AREA**

A	35,1%
B	16,3%
C	48,6%



**TENANT PROFILE BASED ON GROSS RENTALS**

A	42,6%
B	14,3%
C	43,1%

A Large national tenants, large listed tenants, government and major franchisees. These include, *inter alia*, Shoprite Checkers, Pick 'n Pay, Edcon, Pepkor, Ellerines, Masstores and Sasol.  
 B National tenants, listed tenants, franchisees and medium to large professional firms. These include, *inter alia*, Cashbuild, Sportsmans Warehouse, Tekkie Town and Goodyear SA.  
 C Other (this comprises 943 tenants).

# DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2011

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of Fortress Income Fund Limited ("the company"), comprising the statements of financial position at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, as well as the directors' report, in accordance with International Financial Reporting Standards, the AC 500 standards as issued by the Accounting Practices Board, the JSE Listing Requirements and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that

are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

## Approval of group annual financial statements and annual financial statements of the company

The group annual financial statements and annual financial statements of the company were approved by the board of directors on 17 August 2011 and signed on its behalf by:



**Mark Stevens**  
Managing director



**Wiko Serfontein**  
Financial director

## DECLARATION BY COMPANY SECRETARY

In terms of section 33(1) of the Companies Act, 2008, as amended, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.



**Stephanie Botha**  
Company secretary

17 August 2011



Private Bax X6  
Gallo Manor 2052  
South Africa

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Registered Auditors  
Audit – Johannesburg  
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## TO THE MEMBERS OF FORTRESS INCOME FUND LIMITED

We have audited the consolidated annual financial statements and annual financial statements of Fortress Income Fund Limited, which comprise the statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 9 to 14 and 28 to 59.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 about whether the financial statements are free from material misstatement.

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

made by management, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fortress Income Fund Limited as at 30 June 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche  
Registered Auditor  
Per: Patrick Kleb  
Partner

17 August 2011

National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit  
DL Kennedy Risk Advisory NB Kader Tax & Legal Services L Geeringh Consulting L Bam Corporate Finance  
JK Mazzocco Human Resources CR Beukman Finance TJ Brown Clients NT Mtoba Chairman of the Board  
MJ Comber Deputy Chairman of the Board

A full list of partners and directors is available on request

B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu Limited

# ANNUAL FINANCIAL STATEMENTS

*for the year ended 30 June 2011*

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# STATEMENTS OF FINANCIAL POSITION

at 30 June 2011

	Note	GROUP		COMPANY	
		2011 Audited R'000	2010 Audited/ restated/ R'000	2011 Audited R'000	2010 Audited R'000
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>3 975 937</b>	<b>2 914 116</b>	<b>232 523</b>	<b>218 589</b>
Investment property	3	3 130 131	2 435 926	–	–
Straight-lining of rental revenue adjustment	3	28 618	16 556	–	–
Investment property under development	3	3 999	40 013	–	–
Investments	4	472 952	299 608	–	–
Fortress Unit Purchase Trust loans	5	135 947	122 013	135 947	122 013
Loan to BEE vehicle	5	183 991	–	–	–
Loans to development partners	7	20 299	–	–	–
Interest in subsidiaries and joint ventures	6	–	–	96 576	96 576
<b>Current assets</b>		<b>145 219</b>	<b>128 731</b>	<b>2 306 471</b>	<b>1 920 858</b>
Investment property held for sale	3	101 815	88 702	–	–
Straight-lining of rental revenue adjustment	3	585	698	–	–
Fortress Unit Purchase Trust loans	5	3 809	2 351	3 809	2 351
Loans to development partners	7	7 169	2 882	–	–
Trade and other receivables	8	27 934	29 118	–	–
Amounts owing by subsidiaries and joint ventures	6	–	–	2 302 662	1 918 507
Cash and cash equivalents		3 907	4 980	–	–
<b>Total assets</b>		<b>4 121 156</b>	<b>3 042 847</b>	<b>2 538 994</b>	<b>2 139 447</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Total equity attributable to equity holders</b>		<b>761 897</b>	<b>367 890</b>	<b>326 887</b>	<b>215 763</b>
Share capital	9	4 620	4 036	4 620	4 036
Share premium	9	325 464	214 924	325 464	214 924
Non-distributable reserves	10	431 813	148 930	(3 197)	(3 197)
Retained earnings		–	–	–	–
<b>Total liabilities</b>		<b>3 359 259</b>	<b>2 674 957</b>	<b>2 212 107</b>	<b>1 923 684</b>
<b>Non-current liabilities</b>		<b>2 612 735</b>	<b>2 517 332</b>	<b>2 079 000</b>	<b>1 816 046</b>
Linked debentures	11	2 079 000	1 816 046	2 079 000	1 816 046
Interest-bearing borrowings	12	474 565	685 018	–	–
Deferred tax	13	59 170	16 268	–	–
<b>Current liabilities</b>		<b>746 524</b>	<b>157 625</b>	<b>133 107</b>	<b>107 638</b>
Trade and other payables	14	66 431	50 337	444	350
Linked debenture interest payable		132 663	107 288	132 663	107 288
Income tax payable		31	–	–	–
Interest-bearing borrowings	12	547 399	–	–	–
<b>Total equity and liabilities</b>		<b>4 121 156</b>	<b>3 042 847</b>	<b>2 538 994</b>	<b>2 139 447</b>

# STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Note	GROUP		COMPANY	
		Audited for the year ended 30 June 2011 R'000	Audited/ restated for the nine months ended 30 June 2010 R'000	Audited for the year ended 30 June 2011 R'000	Audited for the nine months ended 30 June 2010 R'000
<b>Net rental and related revenue</b>		<b>317 996</b>	209 349	–	–
Recoveries and contractual rental revenue		453 966	272 108	–	–
Straight-lining of rental revenue adjustment		11 949	17 254	–	–
Rental revenue		465 915	289 362	–	–
Property operating expenses		(147 919)	(80 013)	–	–
Distributable income from investments		23 935	15 831	–	–
<b>Fair value gain on investment property and investments</b>		<b>315 336</b>	165 121	–	–
Fair value gain on investment property		278 698	162 120	–	–
Adjustment resulting from straight-lining of rental revenue		(11 949)	(17 254)	–	–
Fair value gain on investments		48 587	20 255	–	–
Administrative expenses		(15 783)	(9 821)	(2 740)	(1 286)
Listing costs		–	(3 197)	–	(3 197)
<b>Profit/(loss) before net finance costs/income</b>		<b>641 484</b>	377 283	(2 740)	(4 483)
<b>Net finance (costs)/income</b>		<b>(315 387)</b>	(211 761)	2 740	1 286
Finance income		34 193	12 222	260 878	158 061
Interest from loans		24 557	6 238	16 096	4 390
Interest on linked units issued <i>cum</i> distribution		9 636	5 984	9 636	5 984
Interest received from group companies		–	–	235 146	147 687
Finance costs		(349 580)	(223 983)	(258 138)	(156 775)
Interest on borrowings		(91 327)	(55 874)	–	–
Capitalised interest		1 073	2 322	–	–
Fair value adjustment on interest rate derivatives		(1 188)	(13 656)	–	–
Interest to linked debenture holders					
– A linked units		(229 489)	(142 711)	(229 489)	(142 711)
– B linked units		(28 649)	(14 064)	(28 649)	(14 064)
<b>Profit/(loss) before income tax expense</b>	15	<b>326 097</b>	165 522	–	(3 197)
Income tax expense	16	(43 214)	(16 592)	–	–
<b>Profit/(loss) for the period attributable to equity holders</b>		<b>282 883</b>	148 930	–	(3 197)
<b>Total comprehensive income/(loss) for the period</b>		<b>282 883</b>	148 930	–	(3 197)
Basic earnings per A share (cents)		62,62	36,90		
Basic earnings per B share (cents)		62,62	36,90		
Basic earnings per A linked unit (cents)		164,22	107,63		
Basic earnings per B linked unit (cents)		75,30	43,87		

Fortress has no dilutionary instruments in issue.

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

for the year ended 30 June 2011

	<b>GROUP</b>	
	<b>Audited for the year ended 30 June 2011 R'000</b>	<b>Audited/ restated for the nine months ended 30 June 2010 R'000</b>
<b>Basic earnings (shares) - profit for the period attributable to equity holders</b>	<b>282 883</b>	148 930
– interest to A linked debenture holders	<b>229 489</b>	142 711
– interest to B linked debenture holders	<b>28 649</b>	14 064
<b>Basic earnings (linked units)</b>	<b>541 021</b>	305 705
Adjusted for:	<b>(229 523)</b>	(127 286)
– fair value gain on investment property	<b>(266 749)</b>	(144 866)
– income tax effect	<b>37 226</b>	17 580
<b>Headline earnings (linked units)</b>	<b>311 498</b>	178 419
Adjustment resulting from straight-lining of rental revenue	<b>(11 949)</b>	(17 254)
Fair value gain on investments	<b>(48 587)</b>	(20 255)
Fair value adjustment on interest rate derivatives	<b>1 188</b>	13 656
Listing costs	<b>–</b>	3 197
Income tax effect	<b>5 988</b>	(988)
<b>Distributable income</b>	<b>258 138</b>	156 775
Less: distributions declared	<b>(258 138)</b>	(156 775)
<b>Income not distributed</b>	<b>–</b>	–
Headline earnings per A share (cents)	<b>11,81</b>	5,36
Headline earnings per B share (cents)	<b>11,81</b>	5,36
Headline earnings per A linked unit (cents)	<b>113,41</b>	76,09
Headline earnings per B linked unit (cents)	<b>24,50</b>	12,33

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 225 875 000 (2010: 201 782 877) shares/linked units in issue during the period for both A and B shares/linked units.

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Share capital R'000	Share premium R'000	Non-distributable reserves R'000	Retained earnings R'000	Total R'000
<b>Group</b>					
<b>Balance at 30 September 2009</b>	-	-	-	-	-
Issue of linked units (equal number of A and B units)	4 036	214 924			218 960
– Issue of 176 592 192 units effective 1 October 2009	3 532	173 000			176 532
– Issue of 9 800 000 units effective 1 October 2009	196	9 544			9 740
– Issue of 8 620 685 units on 5 May 2010	172	18 903			19 075
– Issue of 6 770 000 units on 14 May 2010	136	13 477			13 613
Total comprehensive income for the period				132 838	132 838
Transfer to non-distributable reserves			132 838	(132 838)	-
<b>Balance at 30 June 2010 previously reported</b>	4 036	214 924	132 838	-	351 798
Change in accounting policy			16 092	-	16 092
– Total comprehensive income for the period				16 092	16 092
– Transfer to non-distributable reserves			16 092	(16 092)	-
<b>Balance at 30 June 2010 restated</b>	4 036	214 924	148 930	-	367 890
Issue of linked units (equal number of A and B units)	584	110 540			111 124
– Issue of 11 817 123 units effective 23 September 2010	236	40 171			40 407
– Issue of 7 150 000 units effective 7 December 2010	143	26 392			26 535
– Issue of 10 250 000 units effective 30 March 2011	205	43 977			44 182
Total comprehensive income for the period				282 883	282 883
Transfer to non-distributable reserves			282 883	(282 883)	-
<b>Balance at 30 June 2011</b>	4 620	325 464	431 813	-	761 897
<b>Company</b>					
<b>Balance at 30 September 2009</b>	-	-	-	-	-
Issue of linked units (equal number of A and B units)	4 036	214 924			218 960
– Issue of 176 592 192 units effective 1 October 2009	3 532	173 000			176 532
– Issue of 9 800 000 units effective 1 October 2009	196	9 544			9 740
– Issue of 8 620 685 units on 5 May 2010	172	18 903			19 075
– Issue of 6 770 000 units on 14 May 2010	136	13 477			13 613
Total comprehensive loss for the period				(3 197)	(3 197)
Transfer to non-distributable reserves			(3 197)	3 197	-
<b>Balance at 30 June 2010</b>	4 036	214 924	(3 197)	-	215 763
Issue of linked units (equal number of A and B units)	584	110 540			111 124
– Issue of 11 817 123 units effective 23 September 2010	236	40 171			40 407
– Issue of 7 150 000 units effective 7 December 2010	143	26 392			26 535
– Issue of 10 250 000 units effective 30 March 2011	205	43 977			44 182
Total comprehensive income for the period				-	-
<b>Balance at 30 June 2011</b>	4 620	325 464	(3 197)	-	326 887

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2011

	Note	GROUP		COMPANY	
		Audited for the year ended 30 June 2011 R'000	Audited for the nine months ended 30 June 2010 R'000	Audited for the year ended 30 June 2011 R'000	Audited for the nine months ended 30 June 2010 R'000
<b>Operating activities</b>					
Cash generated from operations	17.1	340 779	202 233	242 136	149 538
Interest received on loans		24 557	6 238	16 096	4 390
Interest paid on borrowings		(91 327)	(55 874)	–	–
Interest paid to linked debenture holders	17.2	(232 763)	(49 487)	(232 763)	(49 487)
Income tax paid	17.3	(281)	(324)	–	–
Cash inflow from operating activities		40 965	102 786	25 469	104 441
<b>Investing activities</b>					
Development and improvement of investment property		(36 913)	(47 149)	–	–
Acquisition of investment property		(603 849)	(270 500)	–	–
Proceeds on disposal of investment property		236 426	74 950	–	–
Unit purchase trust loans advanced		(94 523)	(202 664)	(26 535)	(202 664)
Unit purchase trust loans repaid		79 131	78 300	11 143	78 300
Investment property and related assets and liabilities acquired not included in additions to investment property or financing activities	17.4	–	(2 271 414)	–	(1 512 922)
Acquisition of investments		(173 418)	(275 260)	–	–
Proceeds on disposal of investments		48 661	95 907	–	–
Increase in loans to development partners		(24 586)	–	–	–
Increase in other loans		(183 991)	–	–	–
Increase in loans to subsidiaries		–	–	(384 155)	(502 161)
Cash outflow from investing activities		(753 062)	(2 817 830)	(399 547)	(2 139 447)
<b>Financing activities</b>					
Increase in interest-bearing borrowings		336 946	685 018	–	–
Raising of linked unit capital		374 078	2 035 006	374 078	2 035 006
Cash inflow from financing activities		711 024	2 720 024	374 078	2 035 006
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(1 073)</b>	<b>4 980</b>	<b>–</b>	<b>–</b>
Cash and cash equivalents at the beginning of the period		4 980	–	–	–
<b>Cash and cash equivalents at the end of the period</b>		<b>3 907</b>	<b>4 980</b>	<b>–</b>	<b>–</b>
Cash and cash equivalents consist of:					
Current accounts		3 907	4 980	–	–

The group has a total of R1 390 million (2010: R1 200 million) in secured property finance facilities. Utilised facilities total R1 022 million (2010: R685 million).

## REPORTING ENTITY

Fortress Property Income Fund Limited (the "company") is a company domiciled in South Africa. The consolidated financial statements of the company for the year ended 30 June 2011 comprise the company, its subsidiaries, joint ventures and The Fortress Unit Purchase Trust (together referred to as the "group"). The financial statements were authorised for issue by the directors on 17 August 2011.

## BASIS OF PREPARATION

### *Basis of measurement*

The consolidated and separate financial statements ("financial statements") are prepared on the historical cost basis, except for investment property, derivative financial instruments and financial instruments, designated as financial instruments at fair value through profit or loss, which are measured at fair value.

### *Statement of compliance*

The annual financial statements have been consistently prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the Independent Accounting Standards Board, the AC500 standards as issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa.

The accounting policies are consistent with those applied in the prior period except for the recognition of deferred tax (refer note 13).

This report was compiled under the supervision of Wiko Serfontein CA(SA), the financial director.

## FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in rand, which is also the functional currency of the group, rounded to its nearest thousand (R'000) unless otherwise indicated.

## USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in note 26.

## 1 ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented in these financial statements for the year ended 30 June 2010.

### 1.1 Basis of consolidation

#### *Subsidiaries*

Subsidiaries are those entities over which the group has the ability, either directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

In assessing control, potential voting rights that are presently exercisable are taken into account.

The group financial statements incorporate the assets, liabilities, operating results and cash flows of the company and its subsidiaries. The results of subsidiaries acquired or disposed of during the period are included from the effective dates of acquisition and up to the effective dates of disposal.

The accounting policies of the subsidiaries are consistent with those of the holding company.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

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### *Subsidiaries (continued)*

In the company's separate financial statements, investments in subsidiaries are stated at cost less accumulated impairment losses.

### *Joint ventures*

Joint ventures are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's share of the assets and liabilities and total recognised gains and losses of jointly controlled entities on a proportionately consolidated basis.

### *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

## **1.2 Investment property**

### *Investment property*

Investment properties are those held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business or for administration purposes.

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

After initial recognition, investment properties are measured at fair value. Fair values are determined annually by external independent professional valuers with appropriate and recognised professional qualifications and recent experience in the location and category of property being valued. Valuations are done on the open market value basis and the valuers use either the discounted cash flow method or the capitalisation of net income method or a combination of the methods. Gains or losses arising from changes in the fair values are included in profit or loss for the period in which they arise. Unrealised gains, net of deferred tax, are transferred to a non-distributable reserve in the statement of changes in equity. Unrealised losses, net of deferred tax, are transferred to a non-distributable reserve to the extent that the decrease does not exceed the amount held in the non-distributable reserve.

Immediately prior to disposal of investment property the investment property is revalued to the net sales proceeds and such revaluation is recognised in profit or loss during the period in which it occurs.

When the group redevelops an existing investment property for continued future use as investment property, the property remains classified as investment property. The investment property is not reclassified as investment property under development during the redevelopment.

### *Investment property under development*

Property that is being constructed or developed for future use as investment property is classified as investment property under development until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property. To the extent that developments can be accurately fair valued, developments are carried at fair value.

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

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

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#### *Investment property held for sale*

Immediately before classification as held for sale, the measurement of the investment property is brought up to date in accordance with applicable IFRS. Then, on initial classification as held for sale, the investment property continues to be recognised at fair value.

#### *Leased property*

Leases in terms of which the group assumes substantially all the risks of ownership are classified as finance leases. The property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease.

The property held under finance leases and leased out under operating leases is classified as investment property and stated at fair value.

Leases in terms of which the group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

### **1.3 Financial instruments**

Financial instruments include cash and cash equivalents, investments in listed property securities, trade and other receivables, trade and other payables and interest-bearing borrowings.

#### *Recognition*

Financial instruments are initially measured at fair value which, except for financial instruments measured at fair value through profit and loss, include directly attributable transaction costs.

Subsequent to initial recognition, financial instruments are measured as follows:

- Cash and cash equivalents – Carried at amortised cost.
- Investments – Carried at fair value, being the quoted bid price at the statement of financial position date, through profit and loss.
- Loans – Stated at amortised cost using the effective interest method net of impairment losses.
- Trade and other receivables – Stated at amortised cost using the effective interest method net of impairment losses.
- Trade and other payables – Carried at amortised cost using the effective interest method.
- Interest-bearing borrowings – Carried at amortised cost using the effective interest method.

#### *Derecognition*

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

- the contractual rights to receive cash flows from the asset have expired;
- the group or company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

#### *Offset*

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

### **1.4 Derivative financial instruments**

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value, and changes therein are accounted for through profit or loss. Directly attributable transaction costs are recognised in profit and loss when incurred.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the statement of financial position date, taking into account current interest rates and the current creditworthiness of the counterparties.

### 1.5 Intangible assets

Intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives from the date they are available for use.

Intangible assets with an indefinite useful life are stated at cost less accumulated impairment losses and are tested for impairment annually.

### 1.6 Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries or businesses and comprises the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Negative goodwill arising on acquisition is recognised directly in profit or loss.

Expenditure on internally generated goodwill and brands is recognised in profit or loss as incurred.

### 1.7 Impairment

#### *Non-financial assets*

The carrying amounts of the group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount is estimated at each statement of financial position date for goodwill and intangible assets that have an indefinite useful life and intangible assets that are not yet available for use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount and is recognised in profit or loss.

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

The recoverable amount of an asset or a cash-generating unit is the greater of their fair value less cost to sell and their value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using the original effective pre-tax discount rate. For any asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

#### *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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

All impairment losses are recognised in profit and loss.

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

### **1.8 Cash and cash equivalents**

Cash and cash equivalents include cash balances, call deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management, are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### **1.9 Share capital and share premium**

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

### **1.10 Provisions**

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

### **1.11 Revenue**

Revenue comprises rental revenue and recovery of expenses, excluding VAT. Rental revenue from investment property is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental revenue over the lease period.

### **1.12 Expenses**

#### *Service costs and property operating expenses*

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

#### *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense on a straight-line basis.

Payments under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

### **1.13 Finance costs and finance income**

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

Finance income comprises interest received on funds invested and is recognised in profit or loss as it accrues, taking into account the effective yield on the asset.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

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### 1.14 Dividend/distribution income

Dividend/distribution income is recognised in the statement of comprehensive income on the date the group's or company's right to receive payment is established, which in the case of quoted securities is usually the *ex* dividend/distribution date.

### 1.15 Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the statement of financial position method, based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

### 1.16 Segmental reporting

A segment is a distinguishable component of the group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The group's primary segment is based on business segments. There are no secondary segments. The business segments are determined based on the group's management and internal reporting structure.

On a primary basis, the group operates in the following segments:

- Retail
- Industrial
- Commercial
- Residential

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

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of group revenue and expenses that can be allocated on a reasonable basis to a segment. Segmental assets comprise those assets that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

### 1.17 Employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service on an undiscounted basis. The accrual for employee entitlements to salaries and annual leave represent the amount which the group has a present obligation to pay as a result of employees' services provided to the statement of financial position date. The group does not provide any retirement or post-retirement benefits.

### 1.18 Share-based payment transactions

The share incentive program allows employees to acquire linked units in the company at a discount to market value. The discount to the market value of linked units issued to employees is recognised as an employee expense with a corresponding increase in equity and debentures in the year the linked units are issued as there is no requirement for the employees to provide future services to become entitled to the linked units.

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### 1.19 Related parties

Related parties in the case of the group include any shareholder who is able to exert a significant influence on the operating policies of the group. Directors, their close family members and any employee who is able to exert significant influence on the operating policies of the group are also considered to be related parties. In the case of the company, related parties would also include subsidiaries and The Fortress Unit Purchase Trust.

### 1.20 Earnings per share and per linked unit

The group presents basic and diluted earnings per share and per linked unit. It also presents headline and diluted headline earnings per linked unit.

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

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

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

Diluted earnings per share is calculated by dividing profit for the year attributable to equity holders by the weighted average number of shares in issue, adjusted for the potential dilutive impact of outstanding shareholder options.

Diluted earnings per linked unit is calculated by dividing profit for the year attributable to equity holders plus interest paid to linked debenture holders by the weighted average number of linked units in issue, adjusted for the potential dilutive impact of outstanding shareholder options.

Diluted headline earnings per linked unit is calculated by dividing headline earnings by the weighted average number of linked units in issue, adjusted for the potential dilutive impact of outstanding shareholder options.

## 2 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

### Credit risk

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

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### *Trade and other receivables*

The group's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The group's wide-spread customer base reduces credit risk.

The majority of rental revenue is derived from properties situated in Gauteng, KwaZulu-Natal, Western Cape and Eastern Cape but there is no concentration of credit risk.

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

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

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

### *Loans*

The group's exposure to credit risk is influenced by the security provided for the loan and also the characteristics of each borrower who are employees of the group.

The group establishes an allowance for impairment that represents its estimate of specific losses to be incurred in the event of the borrowers' inability to meet their commitments.

### *Investments*

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

### *Cash and cash equivalents*

The group's exposure to credit risk is limited through the use of financial institutions of good standing for investment and cash-handling purposes.

### *Sureties*

The group's policy is to provide sureties with regards to subsidiaries to the extent required in the normal course of business. Such sureties are provided to enable the subsidiaries to obtain the funding necessary to enable them to acquire investment property or investments.

### **Liquidity risk**

Liquidity risk is the risk that the group will not be able to meet its financial obligations relating to linked debenture interest, interest-bearing borrowings and trade and other payables, as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

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

### **Market risk**

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

The group enters into derivatives and also incurs financial liabilities in order to manage market risks. All such transactions are carried out within the guidelines set by the audit committee.

### *Currency risk*

The group is indirectly exposed to currency risk through its investment in Nepi. This exposure is not hedged as the currency position is considered to be long-term in nature.

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#### *Interest rate risk*

The group is exposed to interest rate risk on its interest-bearing borrowings and cash and cash equivalents.

Interest-bearing borrowings and cash and cash equivalents bear interest at rates linked to prime/Jibar. However, the group adopts a policy of ensuring that at least 50% of its exposure to interest rates on borrowings is hedged. This is achieved by entering into interest rate swaps.

#### *Equity price risk*

The group is indirectly exposed to equity price risk on its investments. It limits its exposure to equity price risk by only investing in liquid securities that are listed on a recognised stock exchange and where the directors are in agreement with the business strategy implemented by such companies.

#### **Fair values**

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *Investment property*

External, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the group's investment property portfolio every year. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant space and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the group and the lessee; and the remaining economic life of the property.

#### *Investments*

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

#### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

#### *Derivatives*

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

#### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### **Capital management**

The group considers both the equity attributable to equity holders and linked debentures as the permanent capital of the group.

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors also monitors the level of distributions to unitholders. The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no changes in the group's approach to capital management during the year.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	<b>GROUP</b>	
	2011	2010
	R'000	R'000
<b>3 INVESTMENT PROPERTY, STRAIGHT-LINING OF RENTAL REVENUE ADJUSTMENT, INVESTMENT PROPERTY UNDER DEVELOPMENT AND INVESTMENT PROPERTY HELD FOR SALE</b>		
Investment in property comprises:		
Investment property	3 130 131	2 435 926
Straight-lining of rental revenue adjustment	28 618	16 556
	<b>3 158 749</b>	<b>2 452 482</b>
Investment property held for sale	101 815	88 702
Straight-lining of rental revenue adjustment	585	698
	<b>3 261 149</b>	<b>2 541 882</b>
Investment property under development	3 999	40 013
<b>Total investment property</b>	<b>3 265 148</b>	<b>2 581 895</b>
Details of the investment property are as follows:		
At cost	2 872 980	2 419 063
Cumulative revaluation	358 966	105 565
Straight-lining of rental revenue adjustment	29 203	17 254
<b>Investment property at fair value</b>	<b>3 261 149</b>	<b>2 541 882</b>
Movement in investment property is as follows:		
Carrying amount at beginning of period	2 452 482	–
Additions	603 849	297 177
Additions (refer note 17.4)	–	2 174 824
Disposals	(147 026)	(74 950)
Transfer from/(to) investment property under development	73 146	(17 289)
Revaluation adjustment	266 749	144 866
Straight-lining of rental revenue adjustment	11 949	17 254
	<b>3 261 149</b>	<b>2 541 882</b>
Transfer to investment properties held for sale (at fair value)	(102 400)	(89 400)
	<b>3 158 749</b>	<b>2 452 482</b>
Details of investment property under development are as follows:		
Carrying amount at beginning of period	40 013	–
Cost capitalised	36 059	20 402
Interest capitalised	1 073	2 322
Transfer (to)/from investment property	(73 146)	17 289
	<b>3 999</b>	<b>40 013</b>
A register of investment property is available for inspection at the registered office of the company (refer to pages 60 to 71).		
There are no restrictions on the ability of the group to realise its investment property.		
Investment property with a market value of R3 029 million (2010: R2 367 million) is mortgaged to secure borrowing facilities (refer to note 12).		
Commitments in respect of property developments and extensions are set out in note 19.		
Investment properties, excluding investment properties held for sale, were externally valued by Peter Parfitt of Quadrant Properties Proprietary Limited (Dip Val MIV (SA)) and Mark de Klerk of Mills Fitchet (Gauteng) CC (Dip Val MIV (SA)), professional associated valuers. The valuations were done on an open-market basis and with consideration to the future earnings potential and an appropriate capitalisation rate for each property. The fair value of all investment property determined is supported by market evidence. Investment properties held for sale were valued at the net sale price, which is considered to be the fair value.		

	Capital Property Fund	Fortress REIT Fund	New Europe Property Investments plc	Resilient Property Income Fund Limited	Total
<b>4 INVESTMENTS</b>					
<b>Group 2011</b>					
Holding	2,30%	–	3,76%	0,77%	
Price at 30 June (cents per unit/share)	821	–	3 200	3 135	
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Historical cost	254 544	–	77 980	60 650	393 174
Revaluation	39 475	–	25 546	1 487	66 508
Accrued distribution	9 751	–	2 956	563	13 270
	<b>303 770</b>	<b>–</b>	<b>106 482</b>	<b>62 700</b>	<b>472 952</b>
<b>Group 2010</b>					
Holding	3,76%		3,25%		
Price at 30 June (cents per unit/share)	730		2 850		
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Historical cost	177 569	45 004	46 926	–	269 499
Revaluation	11 874	219	9 267	–	21 360
Accrued distribution	7 657	–	1 092	–	8 749
	<b>197 100</b>	<b>45 223</b>	<b>57 285</b>	<b>–</b>	<b>299 608</b>

Investments with a market value of R316 million (2010: R108 million) are pledged to secure borrowing facilities (refer to note 12).

Subsequent to the financial year-end, Fortress acquired 25 500 000 linked units in Vukile Property Fund Limited (“Vukile”) at a price of R13,10 cents per linked unit, representing 7,26% of Vukile’s units in issue.

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>5 LOANS</b>				
Unit purchase trust loans (refer to note 18)	139 756	124 364	139 756	124 364
Loan to Amber Peek Investments Proprietary Limited (BEE vehicle)	183 991	–	–	–
Less portion payable within 12 months	(3 809)	(2 351)	(3 809)	(2 351)
	<b>319 938</b>	<b>122 013</b>	<b>135 947</b>	<b>122 013</b>

The unit purchase trust loans bear interest at the weighted average cost of funding of the group, being 10,20% (2010: 10,29%) at year-end. The loans are secured by 9 880 000 (2010: 10 370 000) A linked units and 23 423 200 (2010: 19 070 000) B linked units with a fair value of R108,7 million and R76,4 million (2010: R102,7 million and R40,0 million) respectively. The value of security held for each individual loan exceeds the amount of the related loan. The loans are repayable on the tenth anniversary of the loans being granted.

The loan to Amber Peek Investments Proprietary Limited (BEE vehicle) bears interest at prime plus 1%, is unsecured and is repayable on 30 June 2019.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	Effective interest		Investment		Amount owing by	
	2011	2010	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>6 INTEREST IN SUBSIDIARIES AND JOINT VENTURES</b>						
<b>Subsidiaries</b>						
Fortress Income 1 Proprietary Limited	100%	100%	40 983	40 983	45 130	31 270
Fortress Income 2 Proprietary Limited	100%	100%	*	*	986 621	771 728
Fortress Income 3 Proprietary Limited	100%	100%	*	*	804 513	709 670
Fortress Income 4 Proprietary Limited	100%	100%	55 593	55 593	247 065	217 230
Fortress Income 5 Proprietary Limited	100%	100%	*	*	219 333	188 609
RMS Manzini Investments Proprietary Limited <sup>#</sup>	100%	100%	*	*	–	–
			<b>96 576</b>	<b>96 576</b>	<b>2 302 662</b>	<b>1 918 507</b>
<b>Joint ventures</b>						
Evaton Plaza Share Block Proprietary Limited <sup>#</sup>	50%	50%	*	*	–	–
Nquthu Plaza Share Block Proprietary Limited <sup>#</sup>	50%	50%	*	*	–	–
Intaba Investments 6 Proprietary Limited <sup>#</sup>	60%	–	*	*	–	–
Mantraweb Investments Proprietary Limited <sup>#</sup>	60%	–	*	*	–	–
			*	*	–	–
			<b>96 576</b>	<b>96 576</b>	<b>2 302 662</b>	<b>1 918 507</b>

<sup>#</sup>Share capital held through Fortress Income 2 Proprietary Limited, a wholly-owned subsidiary.

\*Less than R1 000.

The amounts owing by subsidiaries are unsecured, bear interest at rates agreed from time to time and the terms of repayment have not been determined.

The company's share of profits and losses of subsidiaries and joint ventures after tax amounts to R283,2 million and R0,1 million (2010: R113,0 million and R1,3 million) respectively.

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>7 LOANS TO DEVELOPMENT PARTNERS</b>				
Loans to development partners	27 468	2 882	–	–
Current portion included in current assets	(7 169)	(2 882)	–	–
	<b>20 299</b>	<b>–</b>	<b>–</b>	<b>–</b>

The amounts owing by the development partners are unsecured and bear interest at rates between prime and prime plus 2%.

### 8 TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following:

Tenant arrears	13 215	3 913	–	–
Service deposits and prepayments	2 998	2 299	–	–
Fair value of interest rate derivatives	3 247	–	–	–
Other receivables	5 666	22 906	–	–
	<b>25 126</b>	<b>29 118</b>	<b>–</b>	<b>–</b>
VAT receivable	2 808	–	–	–
	<b>27 934</b>	<b>29 118</b>	<b>–</b>	<b>–</b>

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>9 SHARE CAPITAL AND SHARE PREMIUM</b>				
<i>Authorised</i>				
500 000 000 A ordinary shares of 1 cent each	5 000	5 000	5 000	5 000
500 000 000 B ordinary shares of 1 cent each	5 000	5 000	5 000	5 000
<i>Issued</i>				
231 000 000 (2010: 201 782 877) A ordinary shares at 1 cent each	2 310	2 018	2 310	2 018
231 000 000 (2010: 201 782 877) B ordinary shares at 1 cent each	2 310	2 018	2 310	2 018
	<b>4 620</b>	<b>4 036</b>	<b>4 620</b>	<b>4 036</b>
<i>Share premium</i>	<b>325 464</b>	<b>214 924</b>	<b>325 464</b>	<b>214 924</b>

Each A ordinary share is linked to an A debenture which together comprise an A linked unit (see note 11).

Each B ordinary share is linked to a B debenture which together comprise a B linked unit (see note 11).

	GROUP		COMPANY	
	2011 Shares	2010 Shares	2011 Shares	2010 Shares
<b>Reconciliation of movement in issued shares (A and B shares)</b>				
Balance at beginning of period	201 782 877	–	201 782 877	–
Issue for cash	22 067 123	21 620 692	22 067 123	21 620 692
Issue as consideration for investment property and investments	–	161 092 185	–	161 092 185
Issue to The Fortress Unit Purchase Trust	7 150 000	19 070 000	7 150 000	19 070 000
	<b>231 000 000</b>	<b>201 782 877</b>	<b>231 000 000</b>	<b>201 782 877</b>

The capital structure comprises equal numbers of A and B ordinary shares.

## 10 NON-DISTRIBUTABLE RESERVES

### *Group*

Non-distributable reserves comprise those profits and losses that are not distributable to unitholders and are made up of revaluation adjustments on investment property, investment property held for sale and investments, straight-lining adjustments and other non-distributable balances.

### *Company*

Non-distributable reserves comprise those profits and losses that are not distributable or will reduce future distributable profits to unitholders.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>11 LINKED DEBENTURES</b>				
Subordinated variable rate A debentures of R8,10 each	1 871 100	1 634 441	1 871 100	1 634 441
Subordinated variable rate B debentures of R0,90 each	207 900	181 605	207 900	181 605
	<b>2 079 000</b>	<b>1 816 046</b>	<b>2 079 000</b>	<b>1 816 046</b>

	GROUP		COMPANY	
	2011 Debentures	2010 Debentures	2011 Debentures	2010 Debentures
Total A debentures in issue	231 000 000	201 782 877	231 000 000	201 782 877
Total B debentures in issue	231 000 000	201 782 877	231 000 000	201 782 877

The debentures bear interest at a rate of not less than 99% of the distributable earnings as defined in the debenture trust deed.

Each A debenture is indivisibly linked to one A ordinary share in the share capital of the company and each B debenture is indivisibly linked to one B ordinary share in the share capital of the company.

An A debenture bears interest at a rate of 10,75% on R9 in the first year, escalating by 5% per annum until 30 June 2014 and at the lower of 5% or CPI thereafter.

A B debenture is entitled to the balance of the distributable income as defined in the Debenture Trust Deed, after servicing the interest on the A debentures, divided by the number of B debentures in issue.

Interest on A debentures and B debentures ("debentures") are payable on a six monthly basis.

The rights of the A debenture holders and the B debenture holders to repayment are subordinated in favour of the claims of other creditors.

The debentures are redeemable:

- At the option of the company subject to compliance with statutes and the requirements of the JSE, as applicable;
- Immediately at the option of the trustee if the company fails to adhere to the terms of the trust deed, commits an act of insolvency or disposes of, or attempts to dispose of the whole or substantially the whole of its undertaking.

## 12 INTEREST-BEARING BORROWINGS

The group has entered into the following loan agreements, which together with linked unitholder capital, are used to fund its investment activities. The Memorandum of Incorporation of the company allows the group to have borrowings of up to 65% of asset value.

Interest-bearing loans and borrowings are measured at amortised cost. The group's exposure to interest rate and liquidity risk is discussed in note 25.

Group	Nominal interest rate	Date of maturity	2011		2010	
			Fair value R'000	Carrying amount R'000	Fair value R'000	Carrying amount R'000
Standard Bank	1-month Jibar plus 2,37%	September 2011	505 216	505 216	–	–
Standard Bank	1-month Jibar plus 2,31%	September 2011	–	–	243 254	243 254
Standard Bank	Prime less 1,3%	September 2011	42 183	42 183	–	–
Standard Bank	1-month Jibar plus 2,30%	September 2011	–	–	129 675	129 675
Standard Bank	1-month Jibar plus 2,19%	September 2011	–	–	49 487	49 487
Standard Bank	1-month Jibar plus 2,37%	July 2012	107 733	107 733	–	–
Standard Bank	Prime less 1,3%	July 2012	46 358	46 358	–	–
Standard Bank	Prime less 1,15%	July 2012	101	101	–	–
Rand Merchant Bank	1-month Jibar plus 1,92%	October 2012	195 876	195 876	–	–
Rand Merchant Bank	Prime less 1,05%	October 2012	–	–	194 507	194 507
Standard Bank	1-month Jibar plus 2,18%	November 2012	66 422	66 422	–	–
Standard Bank	Prime less 1,5%	December 2016	32 673	32 673	38 716	38 716
Nedbank	Prime less 2,0%	December 2016	25 402	25 402	29 379	29 379
			<b>1 021 964</b>	<b>1 021 964</b>	685 018	685 018
Current portion included in current liabilities			<b>(547 399)</b>	<b>(547 399)</b>	–	–
			<b>474 565</b>	<b>474 565</b>	685 018	685 018

Interest-bearing borrowings are secured by the following:	Investment property	Investments	Total
	R'000	R'000	R'000
<b>Group 2011</b>			
Standard Bank	2 081 630	316 256	2 397 886
Rand Merchant Bank	838 687	–	838 687
Nedbank	108 900	–	108 900
	<b>3 029 217</b>	<b>316 256</b>	<b>3 345 473</b>
<b>Group 2010</b>			
Standard Bank	1 660 515	108 148	1 768 663
Rand Merchant Bank	607 200	–	607 200
Nedbank	99 750	–	99 750
	<b>2 367 465</b>	<b>108 148</b>	<b>2 475 613</b>

Interest-bearing borrowings are repayable as follows:	GROUP	
	2011 Capital repayment R'000	2010 Capital repayment R'000
2012	547 399	422 416
2013	416 490	194 507
2017	58 075	68 095
	<b>1 021 964</b>	<b>685 018</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>13 DEFERRED TAX</b>				
Deferred tax comprises the following:				
– Revaluation of investment property	54 015	33 194	–	–
– Revaluation of investment property – change in accounting policy	–	(16 092)	–	–
– Revaluation of investments	9 311	2 990	–	–
– Revaluation of interest rate swaps	(4 156)	(3 824)	–	–
	<b>59 170</b>	<b>16 268</b>	<b>–</b>	<b>–</b>
Carrying amount at beginning of period	16 268	–	–	–
Charged to the statement of comprehensive income during the period	42 902	16 268	–	–
<b>Carrying amount at end of period</b>	<b>59 170</b>	<b>16 268</b>	<b>–</b>	<b>–</b>

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.

Deferred tax is provided at 14% (2010: 14%) on investment property, at 28% (2010: 28%) on interest rate derivatives and at 14% (2010: 14%) on investments.

There are no unrecognised deferred tax assets and liabilities.

### 14 TRADE AND OTHER PAYABLES

Trade and other payables include the following:

Accrued expenses	29 354	18 302	444	350
Fair value of interest rate swaps	18 091	13 656	–	–
Tenant deposits	15 750	13 121	–	–
VAT payable	3 236	5 258	–	–
	<b>66 431</b>	<b>50 337</b>	<b>444</b>	<b>350</b>

### 15 PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE

Profit/(loss) before income tax expense is stated after charging:

Auditors' remuneration				
– audit fee	(650)	(583)	(20)	(20)
– other services	(30)	(417)	–	–
Directors' remuneration				
– services as director (non-executive)	(1 365)	(603)	(1 365)	(603)
– other services (executive)	(2 822)	(1 947)	–	–
– share-based payments	(1 748)	(763)	–	–
Amortisation of tenant installation	(610)	(33)	–	–
Amortisation of letting commission	(244)	(37)	–	–
Property administration fees	(12 760)	(6 423)	–	–
Operating lease payments on premises	(2 255)	(436)	–	–
Employee cost (excluding executive directors)	(9 917)	(4 929)	–	–
Share-based payments (excluding executive directors)	(3 686)	(2 623)	–	–

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>16 INCOME TAX EXPENSE</b>				
<b>South African normal tax</b>				
– current tax	(312)	(324)	–	–
– deferred tax	(42 902)	(32 360)	–	–
– deferred tax – change in accounting policy	–	16 092	–	–
	<b>(43 214)</b>	<b>(16 592)</b>	<b>–</b>	<b>–</b>

	GROUP		COMPANY	
	2011	2010	2011	2010
Standard tax rate	28,00%	28,00%	28,00%	28,00%
Capital gains tax rate differential	(0,72%)	(0,33%)	–	–
Deferred tax rate change	(22,12%)	(9,73%)	–	–
Deferred tax rate differential	–	(2,66%)	–	–
Other	8,09%	(5,26%)	(28,00%)	(28,00%)
<b>Effective tax rate</b>	<b>13,25%</b>	<b>10,02%</b>	<b>–</b>	<b>–</b>

## 17 NOTES TO THE STATEMENTS OF CASH FLOW

### 17.1 Cash generated from operations

Profit/(loss) before income tax expense	326 097	165 522	–	(3 197)
Adjusted for:				
Fair value gain on investment property	(278 698)	(162 120)	–	–
Fair value gain on investments	(48 587)	(20 255)	–	–
Interest received on loans	(24 557)	(6 238)	(16 096)	(4 390)
Fair value adjustment on interest rate derivatives	1 188	13 656	–	–
Interest paid on borrowings	91 327	55 874	–	–
Capitalised interest	(1 073)	(2 322)	–	–
Interest to linked debenture holders	258 138	156 775	258 138	156 775
Amortisation of tenant installation	610	33	–	–
Amortisation of letting commission	244	37	–	–
	<b>324 689</b>	<b>200 962</b>	<b>242 042</b>	<b>149 188</b>
Changes in working capital				
Increase in trade and other receivables	1 184	(24 425)	–	–
Increase in trade and other payables	14 906	25 696	94	350
	<b>340 779</b>	<b>202 233</b>	<b>242 136</b>	<b>149 538</b>

### 17.2 Interest paid to linked debenture holders

Linked debenture interest payable at beginning of period	(107 288)	–	(107 288)	–
Charged to statement of comprehensive income during the period	(258 138)	(156 775)	(258 138)	(156 775)
Linked debenture interest payable at end of period	132 663	107 288	132 663	107 288
	<b>(232 763)</b>	<b>(49 487)</b>	<b>(232 763)</b>	<b>(49 487)</b>

### 17.3 Income tax paid

Income tax payable at beginning of period	–	–	–	–
Charged to statement of comprehensive income during the period	(312)	(324)	–	–
Income tax payable at end of period	31	–	–	–
	<b>(281)</b>	<b>(324)</b>	<b>–</b>	<b>–</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>17.4 Investment property and related assets and liabilities acquired not included in additions to investment property or financing activities</b>				
Investment property	-	2 174 824	-	-
Investments	-	100 000	-	-
Trade and other receivables	-	7 575	-	-
Trade and other payables	-	(10 985)	-	-
Investment in subsidiaries/joint ventures	-	-	-	96 576
Owing by subsidiaries and joint ventures	-	-	-	1 416 346
<b>Cash flow effect</b>	<b>-</b>	<b>2 271 414</b>	<b>-</b>	<b>1 512 922</b>

During 2010, the company acquired 100% of Fortress Income 1 Proprietary Limited, Fortress Income 2 Proprietary Limited, Fortress Income 3 Proprietary Limited, Fortress Income 4 Proprietary Limited and Fortress Income 5 Proprietary Limited (refer to note 6).

During 2010, the company, through its wholly-owned subsidiary Fortress Income 2 Proprietary Limited, acquired 100% of RMS Manzini Investments Proprietary Limited, 50% of Evaton Plaza Share Block Proprietary Limited and 50% of Nquthu Plaza Share Block Proprietary Limited (refer to note 6).

During 2011, the company, through its wholly-owned subsidiary Fortress Income 2 Proprietary Limited, acquired 60% of Intaba Investments 6 Proprietary Limited and 60% of Mantraweb Investments Proprietary Limited.

## 18 THE FORTRESS UNIT PURCHASE TRUST

In terms of the rules of the The Fortress Unit Purchase Trust ("the Trust"), the maximum number of linked units which may be granted to the participants shall be limited to 30 000 000 linked units (2010: the lower of 50 000 000 linked units or 10% of the issued share capital of the company from time to time).

	2011		2010	
	% of issued linked units	Number of linked units	% of issued linked units	Number of linked units
Maximum linked units available to the Trust in terms of the Trust deed	13,0%	30 000 000	10,0%	20 178 287
Issued to The Fortress Unit Purchase Trust through loan account	11,4%	(26 220 000)	9,5%	(19 070 000)
<b>Units available but unissued</b>		<b>3 780 000</b>		<b>1 108 287</b>

The participants in the Trust carry the risk associated with the linked units issued to them.

Details of the linked units granted to directors as at 30 June 2011 are as follows:

	Number of units issued	Date of issue	Issue price Rand	Employee asset as recorded in the Trust R'000
<b>A linked units</b>				
Mark Stevens	2 100 000	22 Oct 2009	9,00	18 900
	550 000	14 May 2010	9,52	5 236
	1 000 000	07 Dec 2010	10,75	10 750
Wiko Serfontein	100 000	14 May 2010	9,52	952
<b>B linked units</b>				
Mark Stevens	2 100 000	22 Oct 2009	1,00	2 100
	550 000	14 May 2010	1,90	1 045
	1 000 000	07 Dec 2010	2,47	2 470
Nick Hanekom	500 000	22 Oct 2009	1,00	500
	425 000	14 May 2010	1,90	808
	500 000	07 Dec 2010	2,47	1 235
Wiko Serfontein	100 000	14 May 2010	1,90	190

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
<b>19 CAPITAL COMMITMENTS</b>				
Approved and contracted for	40 820	402 754	–	–
The expenditure relates to property acquisitions and extensions to properties and will be funded by borrowings.				
<b>20 CONTINGENT LIABILITIES</b>				
There are no contingent liabilities.				
<b>21 OPERATING LEASE RENTALS</b>				
Contractual rental revenue from tenants can be analysed as follows:				
Within one year	299 001	263 318	–	–
Within two to five years	475 426	467 830	–	–
More than five years	99 559	77 366	–	–
	<b>873 986</b>	<b>808 514</b>	<b>–</b>	<b>–</b>
<b>22 OPERATING LEASE COMMITMENTS</b>				
Operating lease commitments can be analysed as follows:				
Within one year	2 558	1 900	–	–
Within two to five years	11 200	10 613	–	–
More than five years	226 247	229 392	–	–
	<b>240 005</b>	<b>241 905</b>	<b>–</b>	<b>–</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	Corporate R'000	Retail R'000	Industrial R'000	Commercial R'000	Residential R'000	Total R'000
<b>23 SEGMENTAL REPORTING</b>						
<b>Segmental statement of financial position at 30 June 2011</b>						
Investment property and investment property under development		1 769 279	935 079	387 290	71 100	3 162 748
Investments	472 952					472 952
Loans	323 747					323 747
Loans to development partners	27 468					27 468
Investment property held for sale		72 550	22 100	7 750		102 400
Trade and other receivables	3 834	16 322	5 061	2 614	103	27 934
Cash and cash equivalents	3 907					3 907
<b>Total assets</b>	<b>831 908</b>	<b>1 858 151</b>	<b>962 240</b>	<b>397 654</b>	<b>71 203</b>	<b>4 121 156</b>

Due to the pooling of funds, disclosure of segmental liabilities will all be included under corporate.

### Segmental statement of comprehensive income for the year ended 30 June 2011

Recoveries and contractual rental revenue		241 929	151 534	56 082	4 421	453 966
Straight-lining of rental revenue adjustment		8 586	480	2 883		11 949
Segment revenue		250 515	152 014	58 965	4 421	465 915
Property operating expenses		(82 322)	(46 669)	(18 066)	(862)	(147 919)
Net rental and related revenue		168 193	105 345	40 899	3 559	317 996
Distributable income from investments	23 935					23 935
Fair value gain on investment property net of adjustment resulting from straight-lining of rental revenue		168 375	57 040	38 140	3 194	266 749
Fair value gain on investments	48 587					48 587
Administrative expenses	(15 783)					(15 783)
<b>Total segment result</b>	<b>56 739</b>	<b>336 568</b>	<b>162 385</b>	<b>79 039</b>	<b>6 753</b>	<b>641 484</b>
<b>Segmental capital expenditure</b>		<b>422 018</b>	<b>84 946</b>	<b>89 666</b>	<b>43 278</b>	<b>639 908</b>

### Segmental statement of financial position at 30 June 2010

Investment property and investment property under development		1 271 444	908 520	312 531		2 492 495
Investments	299 608					299 608
Loans	124 364					124 364
Investment property held for sale		39 900	38 600	10 900		89 400
Loans to development partners	2 882					2 882
Trade and other receivables		14 521	6 689	7 908		29 118
Cash and cash equivalents	4 980					4 980
<b>Total assets</b>	<b>431 834</b>	<b>1 325 865</b>	<b>953 809</b>	<b>331 339</b>		<b>3 042 847</b>

Due to the pooling of funds, disclosure of segmental liabilities will all be included under corporate.

	Corporate R'000	Retail R'000	Industrial R'000	Commercial R'000	Residential R'000	Total R'000
<b>Segmental statement of comprehensive income</b>						
<b>for the nine months ended 30 June 2010</b>						
Recoveries and contractual rental revenue		134 341	103 534	34 233		272 108
Straight-lining of rental revenue adjustment		2 659	5 978	8 617		17 254
Segment revenue		137 000	109 512	42 850		289 362
Property operating expenses		(40 144)	(28 984)	(10 885)		(80 013)
Net rental and related revenue		96 856	80 528	31 965		209 349
Distributable income from investments	15 831					15 831
Fair value gain on investment property net of adjustment resulting from straight-lining of rental revenue		12 432	74 126	58 308		144 866
Fair value gain on investments	20 255					20 255
Administrative expenses	(9 821)					(9 821)
Listing costs	(3 197)					(3 197)
<b>Total segment result</b>	<b>23 068</b>	<b>109 288</b>	<b>154 654</b>	<b>90 273</b>		<b>377 283</b>
<b>Segmental capital expenditure</b>		<b>274 769</b>	<b>3 145</b>	<b>39 665</b>		<b>317 579</b>

## 24 SUBSEQUENT EVENTS

The directors are not aware of any other events subsequent to 30 June 2011, not arising in the normal course of business, which are likely to have a material effect on the financial information contained in this report, other than as disclosed in the directors' report and note 4.

## 25 FINANCIAL INSTRUMENTS

### 25.1 Credit risk

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

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Investments	472 952	299 608	–	–
Loans	139 756	124 364	139 756	124 364
Loans to development partners	27 468	2 882	–	–
Trade and other receivables	25 126	29 118	–	–
Cash and cash equivalents	3 907	4 980	–	–
	<b>669 209</b>	<b>460 952</b>	<b>139 756</b>	<b>124 364</b>

The maximum exposure to credit risk for loans at the reporting date was:

Unit purchase trust loans	139 756	124 364	139 756	124 364
A linked units pledged as security (refer note 5)	(108 680)	(102 663)	(102 663)	(102 663)
B linked units pledged as security (refer note 5)	(76 360)	(40 047)	(40 047)	(40 047)
Net exposure unit purchase trust loans	–	–	–	–
Loans to development partners	27 468	2 882	–	–
<b>Net exposure total loans</b>	<b>27 468</b>	<b>2 882</b>	<b>–</b>	<b>–</b>

None of the borrowers to whom loans were granted were in breach of their obligations.

No impairment allowance is necessary in respect of loans as the fair value of the assets that underpins the loans exceeds the value of the loans.

The maximum exposure to credit risk for trade and other receivables at the reporting date by segment was:

Corporate	3 834	–	–
Retail	16 322	14 521	–
Industrial	5 061	6 689	–
Commercial	2 614	7 908	–
Residential	103	–	–
Trade receivables	27 934	29 118	–
Tenant deposits (limited to tenant arrears)	(13 215)	(3 913)	–
	<b>14 719</b>	<b>25 205</b>	<b>–</b>

The ageing of all trade receivables at the reporting date was less than 90 days.

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

There are no significant concentrations of credit risk.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
Gross receivables:				
Not past due	14 719	25 205	-	-
Past due not impaired	13 215	3 913	-	-
	<b>27 934</b>	<b>29 118</b>	<b>-</b>	<b>-</b>

Tenant arrears of R4,3 million (2010: R2,5 million) have been written off as irrecoverable during the period. No impairment adjustment is required against the balance of the receivables.

### 25.2 Liquidity risk

The following are the contractual maturities of financial liabilities, excluding interest payments and excluding the impact of netting agreements:

	Carrying value R'000	Contractual outflows R'000	1–12 months R'000	2–5 years R'000	More than 5 years R'000
<b>Group – 2011</b>					
Non-derivative financial liabilities					
Linked debentures	2 079 000	2 079 000			2 079 000
Interest-bearing borrowings – capital	1 021 964	1 021 964	547 399	416 490	58 075
Trade and other payables	66 431	66 431	66 431		
<b>Group – 2010</b>					
Non-derivative financial liabilities					
Linked debentures	1 816 046	1 816 046			1 816 046
Interest-bearing borrowings – capital	685 018	685 018		616 923	68 095
Trade and other payables	50 337	50 337	50 337		
<b>Company – 2011</b>					
Non-derivative financial liabilities					
Linked debentures	2 079 000	2 079 000			2 079 000
Trade and other payables	444	444	444		
<b>Company – 2010</b>					
Non-derivative financial liabilities					
Linked debentures	1 816 046	1 816 046			1 816 046
Trade and other payables	350	350	350		

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

	GROUP	
	2011 R'000	2010 R'000
Permitted borrowings for the group		
Total assets	4 121 156	3 042 847
65% of total assets	2 678 751	1 977 851
Total borrowings	(1 021 964)	(685 018)
<b>Unutilised borrowing capacity</b>	<b>1 656 787</b>	<b>1 292 833</b>

	GROUP		COMPANY	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000

### 25.3 Interest rate risk

Interest-bearing instruments comprise:

#### Variable rate instruments

Cash and cash equivalents	3 907	4 980	-	-
Interest-bearing borrowings	1 021 964	685 018	-	-
	<b>1 025 871</b>	<b>689 998</b>	<b>-</b>	<b>-</b>

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

	Swap maturity	Nominal amount R'000	Interest rate	Fair value R'000
Details of existing interest rate swaps are:				
<b>2011</b>				
	March 2012	50 000	7,41%	552
	September 2012	100 000	7,77%	1 993
	March 2013	50 000	7,77%	1 146
	September 2013	100 000	8,04%	3 146
	March 2014	50 000	8,05%	1 690
	July 2014	50 000	7,18%	219
	August 2014	100 000	6,83%	(623)
	September 2014	100 000	8,24%	3 394
	May 2015	50 000	7,87%	938
	September 2015	100 000	8,36%	3 466
	June 2016	100 000	7,95%	1 547
	July 2016	66 000	7,58%	(227)
	August 2016	100 000	7,19%	(1 852)
	July 2017	100 000	7,66%	-
	June 2018	100 000	7,82%	(545)
		<b>1 216 000</b>		<b>14 844</b>
<b>2010</b>				
	March 2011	50 000	7,11%	194
	September 2011	100 000	7,37%	973
	March 2012	50 000	7,41%	578
	September 2012	100 000	7,77%	1 819
	March 2013	50 000	7,77%	876
	September 2013	100 000	8,04%	2 307
	March 2014	50 000	8,05%	1 084
	September 2014	100 000	8,24%	2 565
	May 2015	50 000	7,87%	340
	September 2015	100 000	8,36%	2 575
	June 2016	100 000	7,95%	345
		<b>850 000</b>		<b>13 656</b>

#### Effective interest rates and repricing

The effective interest rates at the statement of financial position date and the periods in which the borrowings reprice are reflected in note 12.

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

##### Interest

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

	Distribution	
	Increase	Decrease
<b>Group 2011</b>		
Cash and cash equivalents	39	(39)
Interest-bearing borrowings	(10 220)	10 220
Interest rate derivatives	12 160	(12 160)
Cash flow sensitivity (net)	<b>1 979</b>	<b>(1 979)</b>
<b>Company 2011</b>		
Interest-bearing borrowings	-	-
<b>Group 2010</b>		
Cash and cash equivalents	50	(50)
Interest-bearing borrowings	(6 850)	6 850
Interest rate derivatives	8 500	(8 500)
Cash flow sensitivity (net)	<b>1 700</b>	<b>(1 700)</b>
<b>Company 2010</b>		
Interest-bearing borrowings	-	-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

### Equity prices

A one percent change in the market value of investments would have increased/(decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss and equity	
	1% increase	1% decrease
<b>Group 2011</b>		
Investments	4 730	(4 730)
<b>Group 2010</b>		
Investments	2 996	(2 996)

### Fair values

The fair values of all financial instruments with the exception of linked debentures are substantially the same as the carrying amounts reflected on the statement of financial position.

	Designated at fair value R'000	Loans and receivables R'000	Amortised cost R'000	Total carrying amount R'000	Fair value R'000
<b>Group 2011</b>					
Investments	472 952			472 952	472 952
Loans		139 756		139 756	139 756
Loans to development partners		27 468		27 468	27 468
Trade and other receivables		25 126		25 126	25 126
Cash and cash equivalents		3 907		3 907	3 907
Linked debentures			(2 079 000)	(2 079 000)	(2 079 000)
Interest-bearing borrowings			(1 021 964)	(1 021 964)	(1 021 964)
Trade and other payables			(63 195)	(63 195)	(63 195)
Linked debenture interest payable			(132 663)	(132 663)	(132 663)
	472 952	196 257	(3 296 822)	(2 627 613)	(2 627 613)
<b>Group 2010</b>					
Investments	299 608			299 608	299 608
Loans		124 364		124 364	124 364
Loans to development partners		2 882		2 882	2 882
Trade and other receivables		29 118		29 118	29 118
Cash and cash equivalents		4 980		4 980	4 980
Linked debentures			(1 816 046)	(1 816 046)	(1 816 046)
Interest-bearing borrowings			(685 018)	(685 018)	(685 018)
Trade and other payables			(45 079)	(45 079)	(45 079)
Linked debenture interest payable			(107 288)	(107 288)	(107 288)
	299 608	161 344	(2 653 431)	(2 192 479)	(2 192 479)
<b>Company 2011</b>					
Loans		139 756		139 756	139 756
Linked debentures			(2 079 000)	(2 079 000)	(2 079 000)
Trade and other payables			(444)	(444)	(444)
Linked debenture interest payable			(132 663)	(132 663)	(132 663)
	–	139 756	(2 212 107)	(2 072 351)	(2 072 351)
<b>Company 2010</b>					
Loans		124 364		124 364	124 364
Linked debentures			(1 816 046)	(1 816 046)	(1 816 046)
Trade and other payables			(350)	(350)	(350)
Linked debenture interest payable			(107 288)	(107 288)	(107 288)
	–	124 364	(1 923 684)	(1 799 320)	(1 799 320)

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## 26 ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discusses with the audit committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates.

### *Investment property*

The revaluation of investment property requires judgement in the determination of future cash flows from leases and an appropriate capitalisation rate which vary between 9,0% and 13,75% (2010: 9,0% and 13,75%). Changes in the capitalisation rate attributable to changes in market conditions can have a significant impact on property valuations.

### *Impairment of assets*

The group tests whether assets have suffered any impairment in accordance with the accounting policy stated in note 1. The recoverable amounts of cash generating units and intangible assets have been determined based on future cash flows discounted to their present value using appropriate rates. Estimates are based on interpretation of generally accepted industry based market forecasts.

### *Trade receivables*

Management identifies impairment of trade receivables on an ongoing basis. Impairment adjustments are raised against trade receivables when the collectability is considered to be doubtful. Management believes that the impairment write-off is conservative and there are no significant trade receivables that are doubtful and have not been written off. In determining whether a particular receivable could be doubtful, the following factors are taken into consideration:

- age;
- customer current financial status;
- security held; and
- disputes with customer.

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## 27 RELATED PARTY TRANSACTIONS

### *Parent entity*

The holding company is Fortress Income Fund Limited.

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

The subsidiaries and directors are related parties. The subsidiaries of the company are identified in note 6. The directors are set out on pages 4 to 5.

### *Material related party transactions*

Loans to/from subsidiaries are set out in note 6.

Interest received from subsidiaries is set out in the statements of comprehensive income.

Remuneration paid to directors is set out on page 14 and in note 15.

Loans by The Fortress Unit Purchase Trust to directors are set out in note 18.

Interest paid by directors to the Fortress Unit Purchase Trust amounts to R5 485 000 (2010: R1 927 000).

Jannie Moolman, through Luvon Investments Proprietary Limited has a 50% indirect interest in Game Makhado in which Fortress holds a 50% interest.

Jannie Moolman, through East & West Investments Proprietary Limited, has a 40% indirect interest in Game Polokwane in which Fortress holds a 40% interest.

Jannie Moolman has an 80% interest in Moolman Group Property Management Proprietary Limited who performs the property management function of Game Polokwane. Property management fees amounted to R651 901 (2010: R445 823) (100%) for the year ended 30 June 2011.

Other than as disclosed above, there has been no dealings with directors.

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## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 30 June 2011

### 28 STANDARDS AND INTERPRETATIONS AFFECTING AMOUNTS REPORTED IN THE CURRENT PERIOD

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the presentation of these financial statements.

#### *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12*

The amendments introduce a rebuttable presumption that the carrying amount of fair valued investment property will be recovered entirely through sale. The effective date of the amendments is for annual periods beginning on or after 1 January 2012 and the amendment is adopted retrospectively. These amendments have been early adopted by Fortress and have resulted in a restatement of the deferred tax and non-distributable reserve balances.

IAS 1 requires that when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position, two of each of the other statements, and related notes. An entity presents statements of financial position as at:

- the end of the current period;
- the end of the previous period (which is the same as the beginning of the current period); and
- the beginning of the earliest comparative period.

Since the first year end of the entity was 30 June 2010 only one set of comparative figures have been restated. The entity has not included all notes for restatement as there is no impact on the notes other than deferred tax and non-distributable reserves.

The early adoption has had the following effect on the results:

- June 2010 deferred tax balance has decreased by R16 092 000 cumulatively;
- June 2010 income tax expense has decreased by R16 092 000 cumulatively;
- June 2010 basic earnings per A share and basic earnings per A linked unit increased by 3,99 cents;
- June 2010 basic earnings per B share and basic earnings per B linked unit increased by 3,99 cents; and
- No effect on headline earnings per linked unit.

#### 28.1 Statement of compliance with International Financial Reporting Standards (“IFRS”)

The group applies all applicable IFRS as issued by the International Accounting Standards Board (“IASB”) in preparation of the financial statements. Consequently, all IFRS statements that were effective at the date of issuing this report and are relevant to Fortress’ operations have been applied.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not effective:

New/Revised International Financial Reporting Standards		Issued	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards – Amendments resulting from May 2010 Annual Improvements to IFRSs	May 2010	Annual periods beginning on or after 1 January 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards – Replacement of ‘fixed dates’ for certain exceptions with ‘the date of transition to IFRSs’	December 2010	Annual periods beginning on or after 1 July 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	December 2010	Annual periods beginning on or after 1 July 2011
IFRS 7	Financial Instruments: Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRSs	May 2010	Annual periods beginning on or after 1 January 2011
IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	October 2010	Annual periods beginning on or after 1 July 2011
IFRS 9	Financial Instruments – Classification and Measurement	Original issue November 2009	Annual periods beginning on or after 1 January 2013
IFRS 10	Consolidated Financial Statements	Original issue May 2011	Annual periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements	Original issue May 2011	Annual periods beginning on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	Original issue May 2011	Annual periods beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement	Original issue May 2011	Annual periods beginning on or after 1 January 2013

Revised International Accounting Standards		Revised	Effective Date
IAS 1	Presentation of Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs	May 2010	Annual periods beginning on or after 1 January 2011
IAS 1	Presentation of Financial Statements – Amendments to revise the way other comprehensive income is presented	June 2011	Annual periods beginning on or after 1 July 2012
IAS 12	Income Taxes – Limited scope amendment (recovery of underlying assets)	December 2010	Annual periods beginning on or after 1 January 2012
IAS 19	Employee Benefits – Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	Amended June 2011	Annual periods beginning on or after 1 January 2013
IAS 24	Related Party Disclosures – Revised definition of related parties	November 2009	Annual periods beginning on or after 1 January 2011
IAS 27	Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	May 2011	Annual periods beginning on or after 1 January 2013
IAS 28	Investments in Associates – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)	May 2011	Annual periods beginning on or after 1 January 2013
IAS 34	Interim Financial Reporting – Amendments resulting from May 2010 Annual Improvements to IFRSs	May 2010	Annual periods beginning on or after 1 January 2011

## SCHEDULE OF PROPERTIES

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>RETAIL</b>					
1	Checkers Mayville	Gauteng	21 000	–	@
2	Grand Central Shopping Centre	Western Cape	13 437	4,0	81,59
3	Evaton Plaza (50% interest)	Gauteng	28 720	4,0	69,22
4	Village Walk Newcastle	KwaZulu-Natal	9 859	–	77,18
5	Checkers Secunda	Mpumalanga	14 892	2,6	60,91
6	Sinoville Shopping Centre	Gauteng	13 431	22,6	95,67
7	Bellstar Bellville	Western Cape	5 211	3,7	185,79
8	Vryheid Plaza	KwaZulu-Natal	8 416	–	77,30
9	Philippi Shopping Centre	Western Cape	8 331	–	72,81
10	Makhaza Shopping Centre	Western Cape	8 681	–	66,23
11	Middelburg Plaza	Mpumalanga	7 897	–	81,95
12	Pick 'n Pay Secunda	Mpumalanga	10 357	3,0	65,52
13	Nquthu Plaza (50% interest)	KwaZulu-Natal	14 972	–	72,15
14	Market Square Grahamstown	Eastern Cape	8 168	2,0	65,34
15	Sebokeng Plaza	Gauteng	11 379	11,1	69,84
16	Nongoma Shopping Centre	KwaZulu-Natal	10 087	24,3	57,90
17	Secunda Village	Mpumalanga	6 181	15,6	90,00
18	Botlokwa Plaza	Limpopo	6 924	–	65,15
19	Biyela Shopping Centre	KwaZulu-Natal	7 270	0,9	60,50
20	Game Polokwane (40% interest)	Limpopo	15 225	2,3	71,19
21	Monument Centre	Mpumalanga	6 170	9,1	59,11
22	York Road Mthatha (60% interest)	Eastern Cape	5 178	17,1	127,66
23	396 Voortrekker Road Parow	Western Cape	5 660	–	@
24	Mussina Shopping Centre	Limpopo	4 381	1,4	69,75
25	Shoprite Dundee	KwaZulu-Natal	3 950	–	80,34

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
1 Oct 09	196 000	227 700	Erven 266, 3 of 268, 5 of 16 and 2 of 218 Parktown Estates
1 Oct 09	110 000	121 700	RE of Erf 1824 and Erf 2001 Eersterivier
1 Oct 09	92 350	108 900	Erf 14616 Evaton West
1 Oct 09	78 700	89 000	RE of Erf 13751 Newcastle
1 Oct 09/30 Jun 10	65 000	85 200	Erf 5874 Secunda Ext 1
1 Oct 09	56 000	78 800	Erf 2351 Sinoville
31 Dec 10	66 400	78 300	RE of Erf 31675 Bellville
1 Oct 09	52 000	67 800	Erf 2536 Vryheid
13 Jun 11	60 500	66 600	Erven 12730, 12732 and 12715 Philippi
28 Oct 10	51 500	65 000	Erf 59034 Khayelitsha
14 Oct 10	62 000	63 880	Erf 5095 Middelburg Township
1 Oct 09/30 Jun 10	49 000	62 960	Erf 8499 Secunda Ext 1
1 Oct 09	50 150	61 140	Erf 4008 Nquthu
1 Oct 09	58 200	59 300	RE of Erf 4493 Grahamstown
1 Oct 09	53 500	56 400	Ptns 3, 4 and 7 of Erf 65558 Sebokeng Unit 10 Ext 1
1 Oct 09	63 500	46 400	Erf 407 and 408 Nongoma
1 Oct 09/30 Jun 10	35 000	45 700	Erf 1544 to 1547 and Erf 4790 Secunda Ext 1
1 Oct 09	39 100	45 200	Ptn 3 of Farm 510 Botlokwa
31 Dec 10	20 000	39 000	Erf 4706 Empangeni
1 Oct 09	34 800	35 872	Ptn 109 of Ptn 10 and Ptn 293 of the farm Sterkloop 688 LS
12 Nov 10	26 953	35 400	Erf 2919 Standerton
1 Oct 09	39 700	33 180	Erf 2790 Mthata
1 Oct 09	27 000	32 300	Erf 7933 Parow
1 Oct 09	28 500	31 600	Erven 1636 and 1637 Messina Ext 2
1 Oct 09	27 000	31 000	Ptn 29 of Erf 642 Dundee

## SCHEDULE OF PROPERTIES (continued)

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>RETAIL (continued)</b>					
26	Queenstown Mall	Eastern Cape	7 588	10,1	54,36
27	Bhunu Mall (22,37% interest)	Swaziland	15 896	1,9	92,84
28	Game Makhado (50% interest)	Limpopo	4 758	–	62,58
29	People's Place Queenstown	Eastern Cape	5 018	–	47,89
30	Woolworths Newcastle	KwaZulu-Natal	2 721	–	38,18
	<b>Total retail</b>		<b>291 758</b>	<b>4,2</b>	<b>75,20</b>

*@Single tenanted property. The average gross rental of single tenanted retail properties is R77,62/m<sup>2</sup>.*

### COMMERCIAL

31	Sasol Rosebank	Gauteng	6 988	–	113,71
32	Hertzog Boulevard Cape Town	Western Cape	7 819	–	82,37
33	308 Kent Avenue Ferndale	Gauteng	5 503	–	#
34	2 Skeen Boulevard	Gauteng	5 117	3,8	85,57
35	Hanover Square	Gauteng	3 112	11,3	73,95
36	Fort Gale Estate commercial (60% interest)	Eastern Cape	4 548	–	80,51
37	27-29 Maitland Street Bloemfontein	Free State	2 784	–	74,06
38	Bryanston Ridge Office Park*	Gauteng	1 485	–	105,91
39	312 Kent Avenue Randburg	Gauteng	4 329	56,5	37,14
40	Wedgefield Office Park	Gauteng	851	–	110,66
41	Elston Street Benoni	Gauteng	3 786	67,3	70,21
42	15 Wessels Road Rivonia (50% interest)	Gauteng	1 920	27,1	85,36
43	13 Wessels Road Rivonia (50% interest)	Gauteng	1 932	13,0	70,59
44	Brits Office Park	North West	1 459	21,3	32,31
45	31 Indianapolis Street Kyalami	Gauteng	301	–	#
	<b>Total commercial</b>		<b>51 934</b>	<b>12,0</b>	<b>79,83</b>

*\*A portion of this property is disclosed under investment properties held for sale.*

*#Single tenanted property. The average gross rental of single tenanted commercial properties is R76,03/m<sup>2</sup>.*

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
26 Jan 11	21 481	28 700	RE of Erf 2073 Queenstown
1 Oct 09	29 752	27 873	Ptns 274, 280 and 356 Manzini Swaziland
14 Dec 10	13 250	15 975	Erf 3460 Louis Trichardt Township
24 Jan 11	13 077	15 700	Erf 8245 Queenstown
1 Oct 09	9 600	12 700	RE of Erf 13434 Newcastle
	<b>1 530 013</b>	<b>1 769 280</b>	
1 Oct 09	96 000	108 000	Erven 195 and 196 Rosebank
5 Nov 10	47 909	66 500	Erf 8 Roggebaai
1 Oct 09	40 300	45 000	Erf 956 Ferndale
4 Nov 10	32 636	37 300	Erf 1020 Bedfordview Extension 219
1 Oct 09	25 300	22 600	Ptns 18 and 19 of Erf 77 Edendale
1 Jul 10	19 347	21 480	RE of Erf 2782 Mthatha
1 Oct 09	16 900	19 300	RE of Ptn 1 of Erf 904 Bloemfontein
1 Oct 09	20 200	14 650	Ptns 5 to 9 of Erf 803 Bryanston
5 Nov 10	7 308	14 300	Erf 954 Ferndale
1 Oct 09	8 000	8 500	Ptn 5 of Erf 47 Bryanston
1 Oct 09	10 800	8 000	Erven 813, 815, 816 and 818 Benoni
1 Oct 09	7 650	7 850	RE of Erf 28 Edenburg
1 Oct 09	7 500	6 250	Ptn 4 of Erf 28 Edenburg
1 Oct 09	5 800	5 700	Erf 2832 Brits
1 Oct 09	2 300	1 860	SS Moneyline 755 Office Estate 328/2001, Unit 1
	<b>347 950</b>	<b>387 290</b>	

## SCHEDULE OF PROPERTIES (continued)

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>INDUSTRIAL</b>					
46	Cunningham Street Uitenhage	Eastern Cape	20 000	–	&
47	Meadowdale Centre	Gauteng	8 871	–	61,10
48	Springbok Park Industria West	Gauteng	18 459	–	31,00
49	Middle Road Industrial Park Anderbolt	Gauteng	17 132	8,9	27,71
50	Diesel Road Isando	Gauteng	11 300	–	34,00
51	Epp Yard Gunners Circle Epping	Western Cape	11 995	–	31,32
52	Broad & Simmonds Streets	Gauteng	18 733	41,8	19,19
53	14 Commerce Crescent Eastgate	Gauteng	7 823	–	35,07
54	Atlas Road Industrial Park Anderbolt	Gauteng	8 587	5,5	29,99
55	The Avenues Industrial Park Anderbolt	Gauteng	9 185	19,8	29,46
56	Top Road Industrial Park Anderbolt	Gauteng	7 928	5,9	27,65
57	286 Sixteenth Road Randjespark	Gauteng	3 203	–	48,84
58	10 Skeen Boulevard	Gauteng	2 908	4,7	82,38
59	32 Mandy Road	Gauteng	6 193	–	33,94
60	8 Ivanseth Road	Gauteng	9 252	–	&
61	Grand Central Industrial Park	Gauteng	5 033	9,7	40,73
62	2 and 4 Spanner Road Spartan	Gauteng	4 933	13,2	34,05
63	Zenith Drive Umhlanga	KwaZulu-Natal	1 914	–	74,66
64	456 Granite Drive Kya Sands	Gauteng	2 917	–	&
65	Wetherlys Silverton	Gauteng	4 217	–	&
66	8 Field Street Wilbart	Gauteng	3 473	–	&
67	66 Kyalami Boulevard	Gauteng	1 296	–	&
68	563 Voortrekker Road Gezina	Gauteng	4 162	–	36,45

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
1 Oct 09	56 000	65 900	Erf 29036 Uitenhage
1 Oct 09	48 300	58 000	Erven 200 and 201 Meadowdale Ext 6
1 Oct 09	46 600	52 500	Erven 49 and 50 Longdale Ext 4
1 Oct 09	34 700	42 800	Erven 76 and 77 Anderbolt Ext 14 and Erven 253 and 254 consolidated to Erf 257 Anderbolt Ext 72
1 Oct 09	38 800	42 500	Erf 215 Isando
5 Nov 10	36 664	41 400	Erf 32599 Cape Town
1 Oct 09	30 100	29 000	Erven 7 to 24 and Erf 116 Park Central
1 Oct 09	21 500	26 000	Erf 262 Eastgate Ext 13
1 Oct 09	18 900	24 500	Erf 162, 163 and 164 Anderbolt Ext 44
1 Oct 09	17 900	21 600	Erf 255 Anderbolt
1 Oct 09	16 900	19 800	Erven 103 and 104 Anderbolt Ext 26
1 Oct 09	15 800	18 200	Erf 315 Randjespark Ext 116
15 Dec 10	16 364	18 000	Erf 1017 Bedfordview Extension 219
1 Oct 09	16 900	17 700	Erf 116 Reuven
1 Oct 09	14 450	16 970	Erven 91 to 94 Reuven Ext 1
1 Oct 09	15 200	16 700	Erf 695 Halfway House Ext 13
1 Oct 09	16 100	16 340	Erf 254 and 256 Spartan
1 Oct 09	12 400	16 050	Ptn 17 of Erf 2692 Umhlanga Rocks
1 Oct 09	15 400	15 000	RE of Erf 456 and Erf 457 Kya Sands Ext 52
1 Oct 09	12 300	13 200	Erven 2079 and 2080 Silverton Ext 42
1 Oct 09	10 400	12 800	Erf 28 Wilbart
1 Oct 09	11 700	12 300	Erf 66 Kyalami Park
1 Oct 09	9 800	12 300	Erf 705, Gezina

## SCHEDULE OF PROPERTIES (continued)

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>INDUSTRIAL (continued)</b>					
69	Att Yard Gunners Circle Epping	Western Cape	5 478	–	25,34
70	484 Kyalami Boulevard	Gauteng	2 470	–	&
71	10-14 Watkins Street Denver	Gauteng	3 224	–	&
72	19 Indianapolis Street Kyalami	Gauteng	2 009	–	54,79
73	11 Reedbuck Crescent Corporate Park	Gauteng	2 810	–	40,11
74	Malibongwe Drive Kya Sands	Gauteng	1 227	–	&
75	21 Ashfield Avenue Springfield	KwaZulu-Natal	2 783	–	&
76	Wall and London Streets	Gauteng	4 362	18,9	29,14
77	Trentyre Midrand	Gauteng	2 209	–	45,14
78	Hilston St Kya Sands	Gauteng	3 184	–	29,70
79	Unit 5 Northlands Décor Park	Gauteng	2 120	–	&
80	Kindon Street Robertsham	Gauteng	6 788	18,5	17,94
81	Landsborough Street	Gauteng	4 564	–	25,29
82	7-9 Hawthorne Place Pinetown	KwaZulu-Natal	2 446	–	&
83	Ruargh Street	Gauteng	3 755	–	28,68
84	10 Hawthorne Place Pinetown	KwaZulu-Natal	1 610	–	&
85	741 Megawatt Road Aeroport	Gauteng	1 800	–	&
86	66 Booyesen Street	Gauteng	3 089	–	36,04
87	Broadwalk Motor City Midrand	Gauteng	4 615	–	22,20
88	33 Amsterdam Street	Gauteng	3 313	–	30,29
89	Cato Street Durban	KwaZulu-Natal	2 071	–	44,25
90	Grader Road Spartan	Gauteng	3 029	–	&
91	Riverside Industrial Nelspruit	Mpumalanga	1 110	–	&
92	85 North Coast Road Durban North	KwaZulu-Natal	1 266	–	&
93	121 Gazelle Ave Corporate Park	Gauteng	1 578	–	39,21

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
22 Nov 10	10 818	12 100	Erf 32598 Cape Town
1 Oct 09	10 300	12 000	Erf 75 Kyalami Park
1 Oct 09	10 700	12 000	Erven 643, 644 and 645 Denver Ext 4
1 Oct 09	8 300	11 700	Erf 18 Kyalami Park
1 Oct 09	8 900	11 700	Ptn 16 and Ptn 28 of Erf 210 Randjespark, Ext 72
1 Oct 09	9 450	11 120	Ptn 1 of Erf 475 Kya Sands Ext 56
1 Oct 09	10 200	11 000	RE of Ptn 24 of Erf 391 Springfield
1 Oct 09	10 700	10 500	Erf 124 Park Central
1 Oct 09	8 000	10 500	Erf 142 Randjespark Ext 65
1 Oct 09	10 300	10 500	Erven 187, 188 and 189 Kya Sands Ext 6
1 Oct 09	9 200	10 280	Erf 245 Hoogland Ext 22
31 Dec 10	6 154	9 700	Erven 138 to 144 Robertsham
1 Oct 09	8 550	9 600	RE of Erf 120 Park Central
1 Oct 09	9 000	9 600	Erf 13025 Pinetown Ext 144
1 Oct 09	9 800	9 500	Erven 90 to 96 Park Central
1 Oct 09	8 200	9 350	Erf 13026 Pinetown Ext 144
1 Oct 09	7 700	9 300	Erf 741 Spartan Ext 21
1 Oct 09	8 300	9 200	Erven 3 and 7 Reuven
1 Oct 09	9 550	9 200	Erf 26 Grand Central Ext 11
1 Oct 09	8 650	8 800	Erven 50 to 56 Park Central
1 Oct 09	6 200	8 600	Erven 10385 and 10386 Durban
1 Oct 09	9 800	8 500	Erf 493 Spartan Ext 3
1 Oct 09	5 900	7 500	Erf 47 Riverside Industrial Park
1 Oct 09	5 700	6 900	Ptn 15 of Erf 323 Durban North
1 Oct 09	6 600	6 800	Ptn 6 (a portion of Ptn 5) Erf 210 Randjespark Ext 72

## SCHEDULE OF PROPERTIES (continued)

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>INDUSTRIAL (continued)</b>					
94	3 Watkins Street Denver	Gauteng	1 631	–	&
95	13 Cedarfield Close Springfield	KwaZulu-Natal	1 344	–	&
96	London Lane	Gauteng	2 327	–	33,50
97	30 Mahogany Rd Pinetown	KwaZulu-Natal	1 863	–	&
98	18 Suni Avenue Corporate Park	Gauteng	1 160	–	&
99	3 Mountain Ridge Road New Germany	KwaZulu-Natal	1 357	–	&
100	26 Jersey Drive Longmeadow	Gauteng	910	–	&
101	1 Imola Place Pinetown	KwaZulu-Natal	1 491	–	&
102	3 Arbeid Street Strijdompark	Gauteng	1 501	–	&
103	6 Ivanseth Road	Gauteng	1 831	–	&
104	Derrick Coetzee Road Jet Park	Gauteng	1 088	–	42,23
105	Sharland Street Driehoek	Gauteng	1 680	–	&
106	2 Andrea Street	Gauteng	1 123	–	51,59
107	Bart Street Wilbart	Gauteng	1 099	–	&
108	Amsterdam Street	Gauteng	966	–	28,47
	<b>Total industrial</b>		<b>283 795</b>	<b>5,5</b>	<b>34,11</b>

& Single tenanted property. The average gross rental of single tenanted industrial properties is R37,09/m<sup>2</sup>.

## RESIDENTIAL

109	Fort Gale Estate residential (60% interest)	Eastern Cape	17 200	–	74,19
	<b>Total residential</b>		<b>17 200</b>	<b>–</b>	<b>74,19</b>
	<b>TOTAL INVESTMENT PROPERTY</b>		<b>644 687</b>	<b>–</b>	

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
1 Oct 09	5 400	6 700	Erf 641 Denver Ext 4
1 Oct 09	5 000	6 400	Ptn 32 of Erf 391 Springfield
1 Oct 09	7 000	6 320	Erven 65 to 73 Park Central
1 Oct 09	6 700	6 150	Erf 13079 Pinetown Ext 144
1 Oct 09	5 000	6 050	Ptn 2 of Erf 246 Randjespark Ext 75
1 Oct 09	5 150	6 000	Ptn 3 of Erf 1228 New Germany
1 Oct 09	5 800	6 000	Erf 26 Longmeadow Business Estate Ext 1
1 Oct 09	4 600	5 900	Erf 7682 Pinetown Ext 72
1 Oct 09	4 600	5 300	Erf 249 Strijdom Park Ext 11
1 Oct 09	4 550	5 000	Erf 95 Reuven Ext 1
1 Oct 09	3 600	4 900	Erven 377 and 378 Jet Park Ext 20
1 Oct 09	3 800	4 500	Ptn 1 of Erf 1380 Germiston Ext 20
1 Oct 09	3 757	4 450	Erven 1 and 2 Reuven
1 Oct 09	3 125	3 700	Erf 1 Wilbart
1 Oct 09	2 100	2 200	Erven 88 and 89 Park Central
	<b>820 332</b>	<b>935 080</b>	

1 Oct 09/1 Jul 10	64 689	71 100	RE of Erf 2782 (a portion of Erf 2438) Umtata and Erf 22694 (a portion of Erf 2782) Umtata
	<b>64 689</b>	<b>71 100</b>	
	<b>2 762 984</b>	<b>3 162 750</b>	

## SCHEDULE OF PROPERTIES (continued)

	Property name	Geographical location	Gross lettable area (m <sup>2</sup> )	Vacancy (%)	Weighted average rate (R/m <sup>2</sup> )
<b>INVESTMENT PROPERTY HELD FOR SALE</b>					
110	Bayside Centre Mossel Bay (Retail)	Western Cape	7 690	26,8	63,40
111	Taxi City East London (Retail)	Eastern Cape	5 127	0,8	58,55
112	Bryanston Ridge Office Park* (Commercial)	Gauteng	561	–	§
113	Shorthorn Street City Deep (Industrial)	Gauteng	6 790	–	§
114	Silver Creek Centre Centurion (Retail)	Gauteng	2 355	6,5	45,52
115	City Centre Carltonville (Retail)	North West	2 523	41,3	68,12
	<b>Total investment property held for sale</b>		<b>25 046</b>	<b>13,5</b>	<b>54,35</b>
	<b>TOTAL PORTFOLIO</b>		<b>669 733</b>	<b>5,6</b>	

\*A portion of building 38 is held for sale.

§Single tenanted property.

Acquisition date	Purchase price (R'000)	Valuation (R'000)	Address
15 Feb 11	30 769	26 800	Erf 4933 Mossel Bay
29 Nov 10	15 000	24 000	Erf 40851 East London
1 Oct 09	20 200	7 750	Ptns 5 to 9 of Erf 803 Bryanston
4 Nov 10	13 846	22 100	Erven 68 and 69 City Deep Extension 1
1 Oct 09	14 000	15 750	Erf 611 Hennospark Ext 25
1 Oct 09	7 000	6 000	Ptn 3 of Erf 1335 Carltonville Ext 2
	<b>100 815</b>	<b>102 400</b>	
	<b>2 863 799</b>	<b>3 265 150</b>	

## ADMINISTRATIVE INFORMATION

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### COMPANY DETAILS

Fortress Income Fund Limited  
(Registration number: 2009/016487/06)  
JSE code: FFA ISIN: ZAE000141313  
JSE code: FFB ISIN: ZAE000141321  
3rd Floor Rivonia Village  
Rivonia Boulevard Rivonia 2191  
(PO Box 2555 Rivonia 2128)

### COMMERCIAL BANKERS

Standard Bank of South Africa Limited  
(Registration number 1962/000738/06)  
1st Floor 30 Baker Street  
Cnr Oxford Road Rosebank 2196  
(PO Box 8786 Johannesburg 2000)

### TRANSFER SECRETARIES

Link Market Services South Africa Proprietary Limited  
(Registration number 2000/007239/07)  
13th Floor Rennie House  
19 Ameshoff Street Braamfontein 2001  
(PO Box 4844 Johannesburg 2000)

### SPONSOR

Java Capital Trustees and Sponsors Proprietary Limited  
(Registration number 2006/005780/07)  
2 Arnold Road Rosebank 2196  
(PO Box 2087 Parklands 2121)

### SECRETARY AND REGISTERED OFFICE

Stephanie Botha CA(SA)  
3rd Floor Rivonia Village  
Rivonia Boulevard Rivonia 2191  
(PO Box 2555 Rivonia 2128)

### EXTERNAL AUDITORS

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Deloitte Place  
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20 Woodlands Drive  
Woodmead 2052  
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### TRUSTEES FOR DEBENTURE HOLDERS

Michael Pinnock  
Tonkin Clacey Attorneys  
24 Baker Street Rosebank  
Johannesburg 2196  
(PO Box 52242 Saxonwold 2132)

# NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (“MEMBERS”)

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION



Fortress Income Fund Limited  
(Incorporated in the Republic of South Africa)  
(Registration number 2009/016487/06)  
Share Codes: FFA ISIN: ZAE000141313 and  
FFB ISIN: ZAE000141321 respectively  
("Fortress" or "the company")

If you are in any doubt as to what action you should take arising from the following resolutions, please consult your stockbroker, banker, attorney, accountant or other professional adviser immediately.

Notice is given of the 2nd annual general meeting of members of Fortress Income Fund Limited at the company's registered office, 3rd Floor, Rivonia Village, Rivonia Boulevard, Rivonia, 2191, on 3 November 2011 at 14:00, for the purpose of:

- 1 Receiving and adopting the audited company and group financial statements for the year ended 30 June 2011.
- 2 Re-electing the following directors, who are eligible and offer themselves for re-election and who retire in terms of article 15 of the company's Memorandum of Incorporation:

### 2.1 MARK WALTER STEVENS (43)

#### Managing director and chief executive officer

Mark has been involved in the commercial and industrial property industry for over 25 years, working as an independent and corporate broker, private investor and developer. His career has included 10 years with Old Mutual Properties and another three years with the Imperial Group. Since 2004, he has concentrated on building a private portfolio;

### 2.2 NONTANDO THELMA KUNENE (55)

#### Independent non-executive director

#### B.Sc Quantity Surveying

Director and co-founder of Mahlati Quantity Surveyors, Nontando's work covers all aspects of quantity surveying and cost engineering. Experience has been gleaned in her area of expertise at Farrow Laing, du Toit Lombard & Malan and the Department of Works and Energy in Transkei. Nontando also ran the quantity surveying section focusing specifically on Soweto while at du Toit Lombard. She is a chairperson of Imbumba Aganang Proprietary Limited; and

### 2.3 WILLEM JAKOB (WIKO) SERFONTEIN (37)

#### Financial director

#### BCompt (Hons), CA(SA)

Wiko completed his articles with PwC in 1999, after which he joined the transaction services division for a period of six years focusing on due diligence work. Wiko joined Ernst & Young Corporate Finance thereafter for two years. He joined the Resilient group in April 2009 and was company secretary of Pangbourne Properties Limited.

- 3 Re-electing all the members of the audit committee, who offer themselves for re-election, in terms of Section 94(2) of the Companies Act, namely:

### 3.1 KURAUWONE (KURA) NDAKASHYA FRANCIS CHIHOTA (39)

#### Independent non-executive director

#### BCom, Post Graduate Diploma: Business Administration, Real Estate Management Programme (Harvard)

Kura started his career with Bradford McCormack as a commercial broker and later joined Marriott Property Services and then Kagiso Property Holdings. He is a past chairman of SAPOA in Gauteng and remains an active member. Kura is managing director of Leapfrog Property Group (Commercial), a trustee of the Property Association and deputy chairman of the Johannesburg Housing Company.

# NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (“MEMBERS”) (continued)

## 3.2 NONTANDO THELMA KUNENE (55)

### Independent non-executive director

#### B.Sc Quantity Surveying

Director and co-founder of Mahlali Quantity Surveyors, Nontando's work covers all aspects of quantity surveying and cost engineering. Experience has been gleaned in her area of expertise at Farrow Laing, du Toit Lombard & Malan and the Department of Works and Energy in Transkei. Nontando also ran the quantity surveying section focusing specifically on Soweto while at du Toit Lombard. She is a chairperson of Imbumba Aganang Proprietary Limited; and

## 3.3 DJURK PETER CLAUDIUS VENTER (43)

### Independent non-executive director

#### BCompt (Hons), CA(SA)

Djurk started his career with the Department of Inland Revenue in the insurance and financial institution assessing division. In 1996 he started an audit practice, Treisman Venter and Associates. In 2004 he joined Glass, Tucker and Venter (Chartered Accountants and Auditors) as partner. Djurk was a non-executive director and chairman of the audit committee of Diversified Property Fund Limited. He is currently a director of Proptrax.

4 Re-appointing Deloitte & Touche as auditors of the group with Mr P Kleb currently being the designated audit partner.

5 Authorising the directors to determine the remuneration of the group's auditors.

As special business to consider and, if deemed fit, pass with or without modification, which modification is capable of being substantive in nature, the following resolutions:

6 Consider as ordinary resolution number 6:

**“RESOLVED THAT** the authorised but unissued ordinary share capital be and is hereby placed under the control and authority of the directors of the company which directors are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the company may from time to time and in their discretion deem fit, subject to the provisions of the Companies Act, 2008 (Act 71 of 2008) (“the Companies Act” or “the 2008 Companies Act”), any debenture trust deed entered into by the company, the Memorandum of Incorporation of the company and the JSE Listings Requirements.”

7 Consider as ordinary resolution number 7:

**“RESOLVED THAT** the directors of the company be and are hereby authorised by way of a general authority, to issue shares in the capital of the company for cash, as and when they in their discretion deem fit, subject to the Act, the Memorandum of Incorporation of the company, the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- any such issue will be made to public shareholders and not related parties, all as defined in the JSE Listings Requirements, unless the JSE otherwise agrees;
- the number of shares issued for cash shall not in the aggregate in any one financial year exceed 5% (five percent) of the company's issued share capital of ordinary shares.

The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced:

- this authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- a paid press announcement giving full details, including the impact on net asset value per share, net tangible asset value per share, earnings per share, headline earnings per share and, if applicable, diluted earnings and headline earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to the issue; and

- in determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 5% (five per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the directors of the company.”

Ordinary resolution number 7 is required, under the JSE Listings Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote at the annual general meeting.

**8** Consider as ordinary resolution number 8:

“**RESOLVED THAT** the trust deed governing the Fortress Unit Purchase Trust (adopted by unitholders on 2 October 2009) (“the scheme”) be amended to:

- 8.1 increase the maximum aggregate number of units that may be offered to participants or acquired by participants with loans from the scheme from 30 million units to 50 million units; and
- 8.2 increase the maximum aggregate number of units that may be acquired by any one participant from, or with a loan from the scheme from 4,5 million units to 6 million units,

and authorising any director of the company to execute the necessary addendum to the scheme and all other documents necessary to give effect to this resolution.”

Ordinary resolution number 8 is required to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy at the annual general meeting, with votes attaching to units owned or controlled by persons who are existing participants in the Fortress Unit Purchase Trust excluded from voting.

**9** Consider as special resolution number 1: approval of directors’ remuneration for their services as directors;

“**RESOLVED THAT**, as a special resolution, in accordance with section 66 of the Companies Act, fees paid and to be paid by the company to the non-executive directors for their services as directors for the financial years ending 30 June 2011 and 30 June 2012 be and are hereby approved, as follows:

<b>Year ended 30 June 2011</b>	<b>Rand</b>
Chairman	200 000
Independent non-executive director	150 000
Audit committee member (including chairman)	50 000
Investment committee member (including chairman)	50 000
Remuneration committee member (including chairman)	50 000
Risk committee member (including chairman)	50 000
<b>Year ending 30 June 2012</b>	<b>Rand</b>
Chairman	218 000
Independent non-executive director	163 500
Audit committee member (including chairman)	54 500
Investment committee member (including chairman)	54 500
Remuneration committee member (including chairman)	54 500
Risk committee member (including chairman)	54 500

**The reason and effect for special resolution number 1:**

To obtain shareholder approval by way of a special resolution in accordance with section 66(9) of the Companies Act for the payment by the company of remuneration to each of the non-executive directors of the company for each non-executive director’s services as a non-executive director for the financial year ended 30 June 2011 and the ensuing financial year ending 30 June 2012 in the amounts set out under special resolution number 1.

**Percentage of voting rights required for the adoption of special resolution number 1:**

In order for special resolution number 1 to be adopted, the support of a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote at the annual general meeting is required.

## NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS AND DEBENTURE HOLDERS (“MEMBERS”) (continued)

**10** Consider as special resolution number 2: financial assistance to related or inter-related company;

“**RESOLVED THAT**, to the extent required by the Companies Act, the board of directors of the company may, subject to compliance with the requirements of the company’s Memorandum of Incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance in terms of section 45 of the Companies Act by way of loans, guarantees, the provisions of security or otherwise, to any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related (as defined in the Companies Act) to the company for any purpose or in connection with any matter, such authority to endure until the annual general meeting of the company to be held in 2012.”

**The reason and effect for special resolution number 2:**

The company, when the need previously arose, provided loans to and/or guaranteed loans or other obligations of subsidiaries and was not precluded from doing so in terms of its articles of association (now Memorandum of Incorporation) or in terms of the now repealed Companies Act, 61 of 1973, as amended. Under section 45 of the 2008 Companies Act, 2008 (“section 45”) such financial assistance requires the adoption of a special resolution.

The company believes it necessary that it continues to have the ability to provide financial assistance to, *inter alia*, ensure that the company’s subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the company (as opposed to banks) and is accordingly proposing special resolution number 2.

Therefore, the reason for, and effect of, special resolution number 2 is to permit the company to provide direct or indirect financial assistance (within the meaning attributed to that term in section 45) to the entities referred to in special resolution number 2 above.

In terms of section 45, if the resolution is adopted, the board of directors will only be entitled to authorise such financial assistance if it is satisfied that the terms under which the financial assistance is proposed to be given are fair and reasonable to the company and, immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test contemplated in the Companies Act.

**Percentage of voting rights required for the adoption of special resolution number 2:**

In order for special resolution number 2 to be adopted, the support of 75% of the total number of votes exercisable by shareholders, present in person or by proxy, is required to pass this resolution.”

**11** Consider as ordinary resolution 9;

“**RESOLVED THAT** any director of the company or the company secretary be and is hereby authorised to do all such things and sign all such documents as may be required to give effect to special resolutions numbers 1 and 2.”

**Record date**

The record date for determining which shareholders are entitled to: (i) receive notice of the general meeting is 23 September 2011; and (ii) participate in and vote at the general meeting is 28 October 2011, in terms of section 62(3)(a), as read with section 59 of the Companies Act.

**Statement in terms of section 62(3)(e) of the Companies Act:**

Members holding certificated linked units and members holding linked units in dematerialised form in “own name”:

- may attend and vote at the general meeting; alternatively
- may appoint an individual as a proxy (*blue*) (who need not also be a member of the company) to attend, participate in and speak and vote in your place at the general meeting by completing the attached form of proxy (*blue*) and returning it to the registered office of Fortress or to the transfer secretaries, by no later than 14:00 on 1 November 2011. Alternatively, the form of proxy may be handed to the chairman of the general meeting at the general meeting at any time prior to the commencement of the general meeting. Please note that your proxy may delegate his/her authority to act on your behalf to another person, subject to the restrictions set out in the attached form of proxy. Please also note that the attached form of proxy must be delivered to the registered office of Fortress or to the transfer secretaries or handed to the chairman of the general meeting, before your proxy may exercise any of your rights as a member of the company at the general meeting.

Please note that any member of the company that is a company may authorise any person to act as its representative at the general meeting.

Please also note that section 63(1) of the Companies Act requires that persons wishing to participate in the general meeting (including the aforementioned representative) must provide satisfactory identification before they may so participate.

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**Notice to owners of dematerialised linked units:**

Please note that if you are the owner of dematerialised linked units held through a CSDP or broker (or their nominee) and are not registered as an "own name" dematerialised linked unitholder, then you are not a registered linked unitholder of the company, but your CSDP or broker (or their nominee) would be.

Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker as the case may be:

- if you wish to attend the general meeting you must contact your CSDP or broker, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the general meeting but wish to be represented at the general meeting, you must contact your CSDP or broker, and furnish it with your voting instructions in respect of the general meeting and/or request it to appoint a proxy. You must **not** complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, within the time period required by your CSDP or broker.

CSDP's, brokers or their nominees, as the case may be, recorded in the company's sub-register as holders of dematerialised linked units should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised linked units, vote by either appointing a duly authorised representative to attend and vote at the general meeting or by completing the attached form of proxy (*blue*) in accordance with the instructions thereon and return it to the registered office of the company or to the transfer secretaries, by no later than 14:00 on Tuesday, 1 November 2011. Alternatively, the form of proxy may be handed to the chairman of the general meeting at the general meeting at any time prior to the commencement of the general meeting.

**Voting at the general meeting:**

In order to more effectively record the votes and give effect to the intentions of members, voting on all resolutions will be conducted by way of a poll.

By order of the board



Stephanie Botha  
Company secretary

Johannesburg  
17 August 2011

**ADDRESS OF REGISTERED OFFICE**

3rd Floor Rivonia Village  
Rivonia Boulevard Rivonia 2191  
(PO Box 2555 Rivonia 2128)

**ADDRESS OF TRANSFER SECRETARIES**

Link Market Services South Africa Proprietary Limited  
13th Floor Rennie House 19 Ameshoff Street Braamfontein 2001  
(PO Box 4844 Johannesburg 2000)

## CORPORATE DIARY

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### FINAL 2011

Financial year-end	Thursday	30 June 2011
Results announcement (SENS)	Thursday	18 August 2011
Results announcement (PRESS)	Friday	19 August 2011
Last day to trade cum-distribution	Friday	2 September 2011
Units trade ex-distribution	Monday	5 September 2011
Record date	Friday	9 September 2011
Distribution payment	Monday	12 September 2011
Financial report and notice of annual general meeting posted on	Friday	30 September 2011
Annual general meeting	Thursday	3 November 2011

### INTERIM 2012

Interim period ends	Saturday	31 December 2011
Results announcement (SENS)	Thursday	16 February 2012
Distribution payment	Monday	12 March 2012



Fortress Income Fund Limited  
 (Incorporated in the Republic of South Africa)  
 (Registration number 2009/016487/06)  
 Share Codes: FFA ISIN: ZAE000141313 and  
 FFB ISIN: ZAE000141321 respectively  
 ("Fortress" or "the company")

For use by the holders of the company's certificated linked units ("certificated linked unitholders") and/or dematerialised linked units held through a Central Securities Depository Participant ("CSDP") or broker who have selected "own name" registration ("own-name dematerialised linked unitholders"), at the 2nd annual general meeting of members of the company to be held at the company's registered office, 3rd Floor, Rivonia Village, Rivonia Boulevard, Rivonia, 2191, on Thursday, 3 November 2011 at 14:00, or at any adjournment thereof if required. Additional forms of proxy are available from the company's registered office.

Not for use by holders of the company's dematerialised linked unitholders who have not selected "own name" registration. Such linked unitholders must contact their CSDP or broker timeously if they wish to attend and vote at the annual general meeting and request that they be issued with the necessary Letter of Representation to do so, or provide the CSDP or broker timeously with their voting instructions should they not wish to attend the annual general meeting in order for the CSDP or broker to vote in accordance with their instructions at the annual general meeting.

I/We (name/s in block letters) \_\_\_\_\_

of \_\_\_\_\_

being the holders of  **A linked units in the capital of the company do hereby appoint:**  
 being the holders of  **B linked units in the capital of the company do hereby appoint:**

1 \_\_\_\_\_ or failing him/her,

2 \_\_\_\_\_ or failing him/her,

3 the chairperson of the annual general meeting.

as my/our proxy to act for me/us on my/our behalf at the annual general meeting or any adjournment thereof, which will be held for purposes of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat as detailed in the notice of annual general meeting; and to vote for and/or against such resolutions and/or to abstain from voting for and/or against the resolutions in respect of the linked units registered in my/our name in accordance with the following instructions:

	For		Against		Abstain	
	A	B	A	B	A	B
Ordinary resolution number 1 (receiving and adopting the audited financial statements)						
Ordinary resolution number 2.1 (re-election of Mark Walter Stevens as director)						
Ordinary resolution number 2.2 (re-election of Nontando Thelma Kunene as director)						
Ordinary resolution number 2.3 (re-election of Willem Jakob Serfontein as director)						
Ordinary resolution number 3.1 (re-election of Kurauwone Ndakashya Francis Chihota as a member of the audit committee)						
Ordinary resolution number 3.2 (re-election of Nontando Thelma Kunene as a member of the audit committee)						
Ordinary resolution number 3.3 (re-election of Djurk Peter Claudius Venter as a member of the audit committee)						
Ordinary resolution number 4 (re-appointment of auditors)						
Ordinary resolution number 5 (authorising directors to determine auditors' remuneration)						
Ordinary resolution number 6 (unissued shares under the control of the directors)						
Ordinary resolution number 7 (general authority to issue securities for cash)						
Ordinary resolution number 8 (approving amendments to the unit purchase trust scheme)						
Special resolution number 1 (authorising directors' fees of independent non-executive directors)						
Special resolution number 2 (financial assistance to related and inter-related companies)						
Ordinary resolution number 9 (authority for directors or company secretary to implement resolutions)						

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2011

Signature \_\_\_\_\_

Assisted by (where applicable) \_\_\_\_\_

(Indicate instructions to proxy in the spaces provided above). Unless otherwise instructed, my proxy may vote as he thinks fit.

Please read the notes on the reverse side hereof.

## NOTES TO PROXY

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- 1 Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
- 2 Members that are certificated or own-name dematerialised unitholders entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided, with or without deleting "the chairperson of the annual general meeting", but any such deletion must be initialled by the unitholder(s). The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow. If no proxy is named on a lodged form of proxy the chairperson shall be deemed to be appointed as the proxy.
- 3 A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the member in the appropriate box(es) provided. Failure to comply with the above will be deemed to authorise the proxy, in the case of any proxy other than the chairperson, to vote or abstain from voting as deemed fit and in the case of the chairperson to vote in favour of the resolution.
- 4 A member or his/her proxy is not obliged to use all the votes exercisable by the member, but the total of the votes cast or abstained may not exceed the total of the votes exercisable in respect of the linked units held by the member.
- 5 A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the linked units in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries not less than 48 hours before the commencement of the annual general meeting.
- 6 The chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received otherwise than in compliance with these notes, provided that, in respect of acceptances, the chairperson is satisfied as to the manner in which the member concerned wishes to vote.
- 7 The completion and lodging of this form of proxy will not preclude the relevant member from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
- 8 Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the company or the transfer secretaries or waived by the chairperson of the annual general meeting.
- 9 A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the company or the transfer secretaries.
- 10 Where there are joint holders of linked units, the vote of the first joint holder who tenders a vote, as determined by the order in which the names stand in the register of members, will be accepted and only that holder whose name appears first in the register in respect of such linked units need sign this form of proxy.

Forms of proxy must be lodged at, posted or faxed to the transfer secretaries, Link Market Services South Africa Proprietary Limited:

**HAND DELIVERIES TO**

Link Market Services South Africa  
Proprietary Limited  
Rennie House 13th Floor  
19 Ameshoff Street Braamfontein  
Johannesburg 2000

**POSTAL DELIVERIES TO**

Link Market Services South Africa  
Proprietary Limited  
PO Box 4844  
Johannesburg 2000

**FAX TO**

086 674 2450

to be received by no later than 14:00 on Tuesday, 1 November 2011.

<b>Company name</b>	Fortress Income Fund Limited (Registration number: 2009/016487/06)		
<b>Registered address</b>	3rd Floor Rivonia Village Rivonia Boulevard Rivonia 2191 (PO Box 2555 Rivonia 2128)		
<b>Year-end</b>	30 June		
<b>Chairman of the board</b>	Jeff Zidel		
<b>Board of directors</b>	Jeff Zidel Mark Stevens Kura Chihota Nick Hanekom Nontando Kunene Jannie Moolman Wiko Serfontein Djurk Venter		
	Independent non-executive	5	
	Executive	3	
		<u>8</u>	
<b>Managing director</b>	Mark Stevens		
<b>Company secretary</b>	Stephanie Botha		
<b>Corporate advisors</b>	Java Capital		
<b>External auditors</b>	Deloitte & Touche		
<b>Date of listing</b>	22 October 2009		
<b>Units in issue</b>	A linked units: 231 000 000 (2010: 201 782 877) B linked units: 231 000 000 (2010: 201 782 877)		
<b>Gearing ratio</b>	24,8%		
<b>Investment portfolio</b>	<b>Direct property</b>	R3 265,1 million (2010: R2 581,9 million)	
	<b>Listed property securities</b>	R473,0 million (2010: R299,6 million)	
<b>Unit price (cents per unit)</b>		<b>A linked unit</b>	<b>B linked unit</b>
	High	1 195	325
	Low	990	210
	Closing	1 125	325
<b>Distributions (cents per unit)</b>		<b>A linked unit</b>	<b>B linked unit</b>
	Interim	50,80	6,04
	Final	50,80	6,63
		<u>101,60</u>	<u>12,67</u>
<b>Volume traded</b>	101,3 million (FFA) 32,5 million (FFB)		
<b>Value traded</b>	R1 120,1 million (FFA) R87,0 million (FFB)		
<b>Annual general meeting</b>	3 November 2011 at 14:00		
<b>Distribution calendar (final distribution for the 2011 financial year)</b>			
Last day to trade <i>cum</i> distribution	2 September 2011		
Record date	9 September 2011		
Distribution payment	12 September 2011		



[WWW.FORTRESSFUND.CO.ZA](http://WWW.FORTRESSFUND.CO.ZA)

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Fortress Income Fund Limited  
3rd Floor Rivonia Village Rivonia Boulevard Rivonia 2191  
PO Box 2555 Rivonia 2128  
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Fax +27 (0)11 612 7599