VPF – VPIF - Abridged consolidated financial statements for the six months ended 30 June 2011

Vunani Property Investment Fund Limited
(Registration number: 2005/019302/06)
(formerly Vunani Property Investment Fund Proprietary Limited)
ISIN: ZAE000157459
JSE code: VPF
(“VPIF”)

ABRIDGED CONSOLIDATED FINANCIAL STATEMENTS (Prepared by M de Lange, CFO)

FOR THE SIX MONTHS ENDED 30 JUNE 2011

Group statement of financial position	Audited Group 30 June 2011	Audited Group 31 December 2010
Assets	R	R
Non-current assets	791 476 583	784 380 510
Investment property	782 436 543	776 522 427
Plant and equipment	5 938 457	4 535 304
Other non-current assets	3 101 583	3 322 779
Current assets	10 139 094	12 668 467
Trade and other receivables	6 164 605	7 782 634
Cash and cash equivalents	3 974 489	4 885 833
Total assets	801 615 677	797 048 977
Equity and liabilities		
Equity	285 929 456	292 849 397
Ordinary share capital	142 560	142 560
Retained earnings	8 282 016	24 020
Non-distributable reserve	277 504 880	292 682 817
Debentures	142 417 440	142 417 440
Linked unit holders' interest	428 346 896	435 266 837
Liabilities		
Other non-current liabilities	344 378 961	331 064 788
Other financial liabilities	298 504 858	283 210 071
Deferred tax	45 874 103	47 854 717
Current liabilities	28 889 820	30 717 352
Current portion of other financial liabilities	7 355 143	7 355 143
Trade and other payables	21 534 677	23 362 209
Total liabilities	373 268 781	361 782 140
Total equity and liabilities	801 615 677	797 048 977
Units in issue	57 024 000	14 256 000

Net asset value per unit (cents)	751.2	3 053.2
Net tangible asset less deferred tax value per unit (cents)	831.6	3 388.9

GROUP STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2011

	Audited Group 6 months to 30 June 2011 R	Audited Group 12 months to 31 December 2010 R
Revenue - investment property income	55 868 513	103 753 654
Straightline effect of leases	328 443	892 514
Other income	441	71 766
Property expenses	(24 283 942)	(39 088 429)
Operating income	31 913 455	65 629 505
Finance income	232 341	486 817
Finance cost amortisation	(1 986 594)	-
Finance costs	(15 203 865)	(34 158 204)
Net operating income	14 955 337	31 958 118
Fair value adjustments	(7 505 304)	109 780 687
Profit before denture interest and taxation	7 450 033	141 738 805
Trust distributions - net rental income	(6 493 975)	(9 943 353)
Debenture interest	(9 856 613)	(20 428 821)
Net (loss)/ income before taxation	(8 900 555)	111 366 631
Income tax expense	1 980 614	(15 822 370)
Total comprehensive (loss)/income for the period	(6 919 941)	95 544 261
Total comprehensive (loss)/income for the period attributable to:		
Equity holders of the group	(6 919 941)	95 544 261
Basic and diluted earnings per unit (cents)	16.54	220.81
Basic and diluted (loss)/earnings per share (cents)	(12.14)	167.55

GROUP STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011

	Ordinary share capital R	Non-distributable reserve R	(Accumulated loss)/ retained earnings R	Total R
Balance at 31 December 2009	142 560	197 637 828	(475 252)	197 305 136

Total comprehensive income for the year	-	-	95 544 261	95 544 261
Transfer to non-distributable reserve	-	95 044 989	(95 044 989)	-
Balance at 31 December 2010	142 560	292 682 817	24 020	292 849 397
Total comprehensive loss for the period	-	-	(6 919 941)	(6 919 941)
Transfer from non-distributable reserve	-	(15 177 937)	15 177 937	-
Balance at 30 June 2011	142 560	277 504 880	8 282 016	285 929 456

GROUP STATEMENT OF CASH FLOWS

for the six months ended 30 June 2011	Audited Group 6 months to 30 June 2011 R	Audited Group 12 months to 31 December 2010 R
Cash flows from operating activities		
Cash generated by operations	26 666 021	62 274 570
Finance income	232 341	486 817
Finance costs	(15 203 865)	(34 158 204)
Debenture interest	(9 856 613)	(20 428 821)
Net cash inflow from operating activities	1 837 884	8 174 362
Cash flows from investing activities		
Additions to plant and equipment	(2 411 825)	(2 781 688)
Additions to investment property	(5 792 150)	(1 670 217)
Additions to other non current assets	(554 619)	(2 265 974)
Net cash outflow from investing activities	(8 758 594)	(6 717 879)
Cash flows from financing activities		
Advance of other financial liabilities	6 009 366	726 507
Net cash inflow from financing activities	6 009 366	726 507
Net (decrease)/increase in cash and cash equivalents	(911 344)	2 182 990
Cash and cash equivalents at the beginning of the period	4 885 833	2 702 843
Cash and cash equivalents at the end of the period	3 974 489	4 885 833

Reconciliation of headline and diluted headline earnings per unit		
- Total comprehensive (loss)/income attributable to equity holders:	(6 919 941)	95 544 261
Adjust for:		
- Trust distributions - net rental income	6 493 975	9 943 353
- Debenture interest	9 856 613	20 428 821
Revaluation of investment property		
- Gross revaluation	206 477	(109 780 687)
- Deferred tax	(28 907)	15 369 296
Headline earnings per unit shareholder	9 608 218	31 505 044

Reconciliation of earnings and diluted earnings per unit:		
- Total comprehensive (loss)/income attributable to equity holders:	(6 919 941)	95 544 261
Adjust for:		
- Trust distributions - net rental income	6 493 975	9 943 353
- Debenture interest	9 856 613	20 428 821
Earnings per unit shareholder	9 430 647	125 916 435

Headline and diluted headline earnings per unit (cents)	16.54	220.81

BASIS OF PRESENTATION

These audited consolidated financial statements have been prepared in accordance with the Listing Requirements of the JSE Limited, the recognition and measurement requirements of International Financial Reporting Standards (IFRS), presentation and disclosure requirements of IAS34, the AC 500 series issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa, 2008 (as amended) and Companies Regulations, 2011. The accounting policies as set out in the audited financial statements for the six months ended 30 June 2011 are in terms of IFRS and have been consistently applied when compared to the previous accounting period. These consolidated financial statements incorporate the financial statements of the company and its subsidiaries that in substance are controlled by the Group. Results of subsidiaries are included from the effective date of acquisition up to the effective date of disposal. All significant transactions and balances between Group enterprises are eliminated on consolidation.

EVENTS AFTER THE REPORTING DATE

Subsequent to year end, VPIF acquired an additional property, Athol Ridge Office Park as well as the entire share capitals of Cedar Park Properties 31 Proprietary Limited ("Cedar Park") and Pacific Eagle Investments 204 Proprietary Limited ("Pacific Eagle") from Vunani Properties Proprietary Limited. VPIF listed on the Main Board of the Johannesburg Stock Exchange

Limited on 11 August 2011. VPIF raised R448 338 271 through the issue of 63,594,081 new units. As per the Pre Listing Statement published on 18 July 2011, the proceeds were utilised to settle outstanding debt, pay for listing costs, and the purchase considerations for the acquisitions mentioned above. The remaining debt after settlement equates to a loan to value of approximately 8.86%. The loan to value is defined as the outstanding debt to the value of the investment property. The details of the acquired properties are as follows:

Property Name:	Athol Ridge	Cedar Park	Pacific Eagle
Registered legal description:	Erven 132, 133, 134, the remaining extent of erf 135, Portion 1 of erf 135, Portion 3 of erf 184 and Portion 4 of erf 184, Athol Extension 12 and erf 6, Simba Township, Registration Division IR	Unit 18 of Greenstone Hill Office Park, Ext 22, Erf 1836 and 1837	Erf 1570, 1571, 1572, 1573 and 1574
Region:	Gauteng	Gauteng	Western Cape
Sector:	Commercial	Commercial	Commercial
Vacancy:	Nil	Nil	Nil
Gross lettable area (GLA):	8 577	1 807	2 223
Property description and use:	Buildings/Offices	Buildings/ Offices	Buildings/ Offices

AUDIT REPORT

The Group's auditors KPMG Inc. have issued an unmodified audit opinion on the complete set of audited financial statements for the six months ended 30 June 2011. Their audit report is available for inspection at the registered office of the company.

STATEMENT ON GOING CONCERN

The directors have made an assessment of the group’s ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

CHANGE IN YEAR END

During the year, the company changed its year end from 31 December to 30 June. These financial statements are for the six months ended 30 June 2011.

INTRODUCTION

During the review period, Vunani Properties Investment Fund Limited (VPIF) continued to deliver on its strategy of strengthening its financial position and improving our distributions through tight management of its assets and continual refurbishment of the buildings.

The company's ultimate aim since formation was to list the fund and much of the first six months of 2011 was devoted to this activity. This goal was achieved with resounding success post the reporting date on 11 August 2011.

OPERATING ENVIRONMENT

The 2011 business year commenced as the euphoria of the FIFA Soccer World Cup started to wear off. Domestic consumer indebtedness was at record levels touching 80% equivalent of personal disposable income resulting in sustained sluggish domestic demand, while uncompetitive exchange rates and depressed European demand hampered exports.

The South African economy managed to recover somewhat and eventually rendered GDP growth of 2,8%. However, the global economic downturn has exerted pressure on rentals and vacancies across the office sector. In addition, tenants were affected by steep increases in overhead costs (electricity charges and municipal rates) which consequently resulted in a weaker office rental demand as business owners chose to consolidate. Hands-on management resulted in high tenant retention and low vacancy rate across the portfolio.

The year ahead is seen as challenging with the recovery in the office sector being slower than expected. VPIF’s strategic decision to focus on its chosen niche of A and B+ grade office properties, combined with its experience in refurbishments, positions it well to take advantage of the expected office sector recovery in the medium term.

FINANCIAL POSITION

During the six months under review, VPIF continued to deliver an attractive distribution of R16 350 588 with underlying lease escalations in excess of 8.5%. The compounded total return since inception remained solid at 34.3% per annum with capital growth at 15.7% and distribution growth of 18.6%.

The property portfolio was independently valued and the book value increased by 1% from R776 522 427 to R782 436 543 with the completion of some of the refurbishment projects. Net rental and related revenue for the review period increased by 7.69%, whilst property related expenses increased by 15%. Other operating expenses increased by 8.6% after removing listing costs. This resulted in an operating profit for the year of R14,955 377. The net cost to income ratio (net of recoveries) is 23.9%.

The Fund’s debt remained relatively low at a 39.1% loan to value. During the period management broke the fixed debt at 11.88% and re-fixed it at 9.95% for 5 years. It is the strategy of the Fund not to take interest rate risk.

SEGMENTAL REPORTING

The group has six reportable segments based on the geographic split of the country which are the group's strategic business segments. For each strategic business segments, the group's CEO reviews internal management reports on at least a monthly basis. All segments are located in South Africa. There are no single major customers.

The following summary describes the operations in each of the group's reportable segments:

6 month ended 30 June 2011	Head Office	Gauteng	Kwa-Zulu Natal	Sub Total

	R	R	R	R
Revenue - Investment property income	-	47 550 209	1 561 713	49 111 922
Straightline effect of leases	328 443	-	-	328 443
Other income	-	441	-	441
Property expenses	(4 032 814)	(17 266 766)	(354 144)	(21 653 724)
Operating income	(3 704 371)	30 283 884	1 207 569	27 787 082
Net operating income	(20 767 412)	30 383 486	1 207 653	10 823 727
Fair value adjustments	(7 505 304)	-	-	(7 505 304)
Reportable segment (loss)/profit before debenture interest and tax	(28 272 716)	30 383 486	1 207 653	3 318 423
Reportable segment assets	4 006 817	685 388 396	24 606 801	714 002 014
Reportable segment liabilities	(357 716 671)	(14 414 186)	(123 215)	(372 254 072)

6 month ended 30 June 2011	Northern Province	Western Cape	Eastern Cape	Total
	R	R	R	R
Revenue - Investment property income	470 092	4 859 183	1 427 316	55 868 513
Straightline effect of leases	-	-	-	328 443
Other income	-	-	-	441
Property expenses	(84 957)	(2 236 450)	(308 810)	(24 283 941)
Operating income	385 135	2 622 733	1 118 506	31 913 456
Net operating income	385 249	2 624 467	1 121 896	14 955 339
Fair value adjustments	-	-	-	(7 505 304)
Reportable segment (loss)/profit before debenture interest and tax	385 249	2 624 467	1 121 896	7 450 035
Reportable segment assets	7 718 227	57 357 593	22 537 842	801 615 676
Reportable segment liabilities	(42 140)	(419 405)	(553 164)	(373 268 781)

12 months ended 31 December 2010	Head Office	Gauteng	Kwa-Zulu Natal	Sub Total
	R	R	R	R
Revenue - Investment property income	-	87 986 033	2 659 015	90 645 048
Straightline effect of leases	892 514	-	-	892 514
Other income	-	71 766	-	71 766
Property expenses	(4 316 000)	(29 262 667)	(664 800)	(34 243 467)
Operating income	(3 423 486)	58 795 132	1 994 215	57 365 861
Net operating income	(37 235 817)	58 936 128	1 994 212	23 694 523
Fair value adjustments	109 780 687	-	-	109 780 687

Reportable segment (loss)/profit before debenture interest and tax	72 544 870	58 936 128	1 994 212	133 475 210
Reportable segment assets	5 013 206	681 550 742	24 185 334	710 749 282
Reportable segment liabilities	(344 271 278)	(16 737 017)	(101 641)	(361 109 936)

12 months ended 31 December 2010	Northern Province	Western Cape	Eastern Cape	Total
	R	R	R	R
Revenue - Investment property income	900 986	9 578 372	2 629 247	103 753 653
Straightline effect of leases	-	-	-	892 514
Other income	-	-	-	71 766
Property expenses	(138 305)	(4 050 932)	(655 724)	(39 088 428)
Operating income	762 681	5 527 440	1 973 523	65 629 505
Net operating income	762 759	5 526 338	1 974 499	31 958 119
Fair value adjustments	-	-	-	109 780 687
Reportable segment (loss)/profit before debenture interest and tax	762 759	5 526 338	1 974 499	141 738 806
Reportable segment assets	7 520 637	56 140 516	22 638 542	797 048 977
Reportable segment liabilities	(42 042)	(356 044)	(274 118)	(361 782 140)

MANAGEMENT

VPIF is fortunate to have retained the same leadership team since its formation five years ago. Their collective experience and commitment has undoubtedly proved beneficial to the establishment and growth of VPIF and we are confident that they will prove their worth once again after the listing of VPIF on the JSE.

PROSPECTS

The board believes that the office market is currently near its lowest ebb, thereby creating embedded value for incoming investors. Office property rentals are expected to rise disproportionately in the medium term as the current oversupply is absorbed and the lack of new developments impacts on rentals.

VPIF will continue to utilise its BEE rating to retain Government tenants and selectively acquire new Government tenanted buildings, based on sound investment fundamentals. The high proportion of single tenant and National Government or listed tenants is expected to underpin strong cash flows.

APPRECIATION

We would like to thank our fellow directors and board members for their strategic direction and tireless dedication in taking VPIF to market. Equally important is the support we received from our tenants and business partners.

Statements contained throughout this announcement regarding the prospects of the group have not been reviewed or reported on by the group’s external auditors.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to unit holders that the annual general meeting of unit holders of the Company will be held in the boardroom, Vunani House, 151 Katherine Street, Sandton at 10:00 on Thursday 3 November 2011.

Sandton

30 September 2011

Sponsor

Grindrod Bank Limited