

CHAPTER FIVE: AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION



**METROPOLITAN
TRADING
COMPANY**

THE METROPOLITAN TRADING COMPANY (PTY) LTD
Annual Financial Statements
for the year ended 30 June 2010

The Auditor-General
Issued 31 August 2010

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature on the
Metropolitan Trading Company (Pty) Ltd
for the year ended 30 June 2010**



AUDITOR - GENERAL
SOUTH AFRICA

Mr Alfred Sam
The Accounting Officer
Metropolitan Trading Company (Pty) Ltd
P O Box 870
Newtown
2113

29 November 2010

Reference: TS 98 19611

Dear Mr Sam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Metropolitan Trading Company (Pty) Ltd for the year ended 30 June 2010.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(4) of the Municipal Finance Management Act of South Africa (MFMA).
2. I have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(4) of the MFMA you are required to include the audit report in the Metropolitan Trading Company's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those

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documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format if needed.
 - The report must please be referred to the Municipal Public Accounts Committee.
 - **Please send 10 copies of the annual report to the Auditor-General of South Africa for attention Parliamentary Manager, 61 Central Street, Houghton.**
6. **Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.**
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Senior Manager: Gauteng

Enquiries: Ockle Ludick
Telephone: (011) 703 7639
Fax: (011) 703 7690
E-mail: ocklel@agsa.co.za

Usefulness of reported performance information

17. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Consistency:** Has the municipal entity reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan/annual performance plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned and reported indicators not well defined

18. For the selected programmes, 33% of the planned and reported indicators were not well defined.

Planned and reported performance targets not specific

19. For the selected programmes, 33% of the planned and reported performance targets were not specific.

Reliability of reported performance information

20. The following criteria were used to assess the usefulness of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relate to the above criteria:

Reported indicators not reliable when compared to source information

21. For the selected programmes, 25% of the reported indicators were not accurate when compared to source information.

Compliance with laws and regulations

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Expenditure was not paid within parameters set by the applicable legislation

22. Contrary to the requirements of section 99(2)(b) of the MFMA, expenditure was not always paid within the required 30 days from the receipt of an invoice.

The accounting officer did not adhere to his responsibilities

23. Contrary to the requirements of sections 97(d) of the MFMA, the accounting officer did not fully adhere to his statutory responsibilities as a significant portion of revenue from informal traders was not collected.

The financial statements were not prepared in accordance with applicable legislation

24. Contrary to the requirements of sections 122(1) of the MFMA, the municipal entity did not prepare financial statements in accordance with the legislative requirements as the financial statements submitted for audit on the 31 August 2010 since material amendments were made to revenue and debtors as a result of the audit.

Companies Act, 2008 (Act No. 71 of 2008)

The statutory requirements have not been complied with

25. Contrary to the requirements of section 242(2) and (4) of the Companies Act, the minutes of the ordinary directors' meetings for the current financial year containing written resolutions were not signed by the chairperson of the board as evidence of the proceedings of the meetings.

INTERNAL CONTROL

26. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control.
27. The matters reported below are limited to the significant deficiencies regarding the basis for the opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

28. The entity did not always operate with a set of formalised and approved policies that could be used to monitor and in certain cases measure performance of the officials.
29. Certain key internal control deficiencies raised in the prior periods were not all addressed.

Financial and performance management

30. The finance department was not properly capacitated and sufficiently skilled as the financial statements were subject to certain material amendments resulting from the audit.
31. Certain performance indicators and targets were not well defined and specific and reported performance information was not always accurate.
32. Significant delays were experienced in receiving the requested information due to inappropriate record keeping and record management.

Governance

33. The system of internal control relating to creditors payments and revenue management for informal traders was found to be inadequate.

Auditor-General
Johannesburg

30 November 2010



AUDITOR-GENERAL
SOUTH AFRICA

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THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

General Information

COUNTRY OF INCORPORATION AND DOMICILE	South Africa Management of retail markets for formal and Informal traders, ranking and holding facilities for public transport operators, provision of support to traders, ranking and holding facilities for public transport operators. The company provides support to traders and taxi operators in the form of market promotions and business training. Management of ticket sales, security and cleaning of Bus Rapid Transit System on behalf of the City of Johannesburg Metropolitan Municipality.
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	
CHIEF FINANCE OFFICER (CFO)	Mr V Kgopa
DIRECTORS	*Mr T Nzimakwe (Chairperson) Mr A Sam (CEO) *Ms A Egbers **Ms F Mgidl *Dr K Dakile *Dr K Mbatha Ms L Mpuru *Mr M Luus *Ms M van Eeden *Ms N Mabaso **Mr T Tlhacoane
REGISTERED OFFICE	171 Bree street Newtown Johannesburg 2113
BUSINESS ADDRESS	171 Bree street Metro Mall Top Deck Johannesburg 2113
POSTAL ADDRESS	P O Box 870 Newtown Johannesburg 2113
CONTROLLING ENTITY	The City of Johannesburg Metropolitan Municipality
BANKERS	ABSA Bank Limited
AUDITORS	The Auditor-General
SECRETARY	Mr MJ Mashapa
COMPANY REGISTRATION NUMBER	1999/011422/07

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the entity's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future. The City of Johannesburg Metropolitan Municipality has confirmed that it will continue to support the Metropolitan Trading Company (Pty) Ltd in the Audit and Risk Committee meeting that took place on Friday 27 August 2010.

The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations which they have undertaken. The annual financial statements are prepared on the basis that the entity is a going concern and that the Metropolitan Trading Company (Pty) Ltd has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the directors on 30 November 2010 and were signed on its behalf by:


Mr AX Sam
Chief Executive Officer


Ms X Hloma (Chairperson)
Non-executive director

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

The directors submit their report for the year ended 30 June 2010.

1. INCORPORATION

The entity was incorporated on 01 March 1999 and obtained its certificate to commence business on the same day.

2. REVIEW OF ACTIVITIES

Main business and operations

The entity is engaged in management of retail markets for formal and informal traders, ranking and holding facilities for public transport operators, provision of support to traders, ranking and holding facilities for public transport operators. The company provides support to traders and taxi operators in the form of market promotions and business training, management of ticket sales, security and cleaning of bus rapid transport system on behalf of the City of Johannesburg Metropolitan Municipality.

The mandate of the company was changed to include the management of the Rea Vaja BRT stations. This resulted in a significant increase in grants received from the City of Johannesburg Metropolitan Municipality as well as related expenditure which consists mainly of an increase in salaries and wages as well as security and cleaning costs.

The operating results and the state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the company was R 394,137 (2009: deficit R 1,033,873).

3. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on the City of Johannesburg Metropolitan Municipality providing an increased subsidy.

The City of Johannesburg Metropolitan Municipality has provided an increased operating subsidy of R48.059 million (2009: R40.135 million). No capital expenditure was funded by the City of Johannesburg Metropolitan Municipality for the current financial year (2009: R5.5 million). However, the Company has been allocated R45 million to implement refurbishment projects on behalf of the City of Johannesburg.

The company is reviewing its business model which is aimed at the effective management of the city's facilities and maximization of its revenue generating potential.

4. SUBSEQUENT EVENTS

The directors and management are not aware of any matter or circumstance arising since the end of the financial year, to the date of this report in respect of matters which would require adjustments to the annual financial statements. However, the Board of the Company was reconstituted following the resignation of some Board members.

5. DIRECTORS' INTEREST IN CONTRACTS

The directors of the company did not have any interest in contracts entered into by the company during the year under review.

6. BORROWING LIMITATIONS

Section 108 of the Municipal Finance Management Act 56 of 2003 provides that the Metropolitan Trading Company (Pty) Ltd may raise financing, but only in accordance with the approved multi year business plan and chapter 6 provisions.

7. NON-CURRENT ASSETS

There were no major changes in the nature of the non-current assets of the company during the year.

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

8. DIVIDENDS

No dividends were declared or paid to shareholder during the year.

9. DIRECTORS

The directors of the entity during the year were as follows:

Name	Changes
*Mr T Nzimakwe (Chairperson)	
**Mr T Tlhacoane	
**Ms F Mgidi	
*Dr K Dakile	
*Ms A Egbers	
*Dr K Mbatha	
*Ms M van Eeden	
*Mr M Luus	
*Ms N Mabaso	
Ms L Mpuru	Appointed Tuesday, 26 January 2010
Mr A Sam (CEO)	

* Appointed on 23 January 2009

**Appointed on 30 January 2007

The following directors resigned after year end but before the issue of the financial statements

Mr T Nzimakwe	Resigned 23 July 2010
Dr K Dakile	Resigned 27 July 2010
Ms A Egbers	Resigned 28 July 2010
Ms N Mabaso	Resigned 28 July 2010
Ms F Mgidi	Resigned 1 August 2010
Ms M van Eeden	Resigned 2 August 2010
Mr T Tlhacoane	Resigned 11 August 2010

The following directors were appointed after year end but before the issue of the financial statements, with effect from 19 August 2010, as non-executive directors of MTC on an interim basis

Ms X Hloma (Chairperson)
Ms F Segole
Ms D Dondur
Ms N Singh
Ms B Skenjana
Mr F Matabana
Mr J Nkeli

Chief Executive Officer

On 7 April 2010 the Chief Executive Officer of the company was put on special leave and the Chairperson of the Audit and Risk committee was asked by the board of directors to act as Chief Executive Officer effective from the same day. The Chief Executive Officer resumed his duties on 26 July 2010.

10. SECRETARY

The secretary of the entity is Mr MJ Mashapa of:

Business address

Top Deck, Metro Mall
171 Bree Street
Newtown
Johannesburg

Postal address

PO Box 870
Newtown
2113

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Directors' Report

11. CORPORATE GOVERNANCE

General

The board of directors is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the board of directors supports the highest standards of corporate governance and the ongoing development of best practice.

The Metropolitan Trading Company (Pty) Ltd confirms and acknowledges its responsibility to compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Code on Corporate Governance. Where applicable the board of directors discuss the responsibilities of management in this respect, at Board meetings and monitor the company's compliance with the code on a three monthly basis.

Executive meetings

Non-executive directors have access to all members of management of the entity.

Name	Board meeting	Audit committee meeting	HR committee meeting	OPS committee meeting
Mr T Nzimakwe (Chairperson)	7	-	-	1
Mr TT Tihacoane	7	6	-	1
Ms F Mgidi	4	-	-	-
Dr K Dakile	7	-	-	3
Ms A Egbers	7	6	-	2
Mr M Luus	3	1	-	1
Ms L Mpuru (Appointed 26 January 2010)	1	-	-	-
* Ms R Kenose (Appointed 26 January 2010)	-	1	-	-
* Mr H Moola (Appointed 26 January 2010)	-	1	-	-
* Mr R Theunissen	-	5	-	-
* Ms D Ndaba	-	5	-	1
Total number of meetings held	7	6	3	3
Ms N Mabaso	5	-	3	3
Ms M van Eeden	5	-	3	1

Audit and risk committee

*Independent audit committee members

Ms D Ndaba was retired on 26 January 2010

12. CONTRIBUTION FROM OWNERS

There were no changes in the authorised or issued share capital of the company during the year under review.

The entire shareholding of the company is held by the City of Johannesburg Metropolitan Municipality.

Unissued ordinary shares are under the control of the City of Johannesburg Metropolitan Municipality.

Certificate by Secretary

In terms Section 268 G(d) of the Municipal Finance Management Act, Act 56 of 2003, and the Companies Act of South Africa, Act 61 of 1973, as amended, I certify that the entity has lodged with the Registrar all such returns as required by the Companies Act and that all such returns are true, correct and up to date.



Mr MJ Mashapa

Johannesburg
Tuesday, 31 August 2010

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
ASSETS			
Current Assets			
Trade and other receivables (Exchange transactions)	3	50,856,477	46,830,789
VAT receivable	4	-	390,869
Cash and cash equivalents	5	683	9,000
		50,857,160	47,230,658
Non-Current Assets			
Investment property	6	46,490,431	46,744,316
Property, plant and equipment	7	1,974,862	2,076,391
Intangible assets	8	234,901	450,972
Operating lease asset	2	28,973,943	29,370,505
		77,674,137	78,642,184
Total Assets		128,531,297	125,872,842
LIABILITIES			
Current Liabilities			
Finance lease obligation	9	172,333	-
Trade and other payables (Exchange transactions)	10	40,693,562	37,911,651
VAT payable	11	80,618	-
Provisions	12	108,000	250,000
		41,054,503	38,161,651
Non-Current Liabilities			
Finance lease obligation	9	159,740	-
Total Liabilities		41,214,243	38,161,651
Net Assets		87,317,054	87,711,191
NET ASSETS			
Share capital	13	163,897,490	163,897,490
Accumulated deficit		(76,580,436)	(76,186,299)
Total Net Assets		87,317,054	87,711,191

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Advertising revenue		669,966	1,591,855
Electricity	15	1,142,530	1,059,338
Fair value adjustments	22	(1,922,962)	(981,860)
Informal trader rental		4,682,540	4,663,761
Interest received - investment	21	3,252,980	5,414,573
Municipal grants	16	48,059,000	40,135,000
Other income	17	3,264,103	119,209
Public transport rental		47,708	1,211,228
Recoveries		21,645	-
Retail rental		5,149,939	4,951,050
Total Revenue		64,347,449	58,164,154
Expenditure			
Employee costs	19	(11,312,133)	(9,283,313)
Depreciation and amortisation	23	(1,179,478)	(1,229,429)
Impairment loss/ Reversal of Impairments	24	-	(1,538,520)
Finance costs	25	(966,774)	(350,458)
Bad debts	20	(4,857,810)	(1,341,795)
Repairs and maintenance		(3,967,511)	(1,345,833)
General Expenses	18	(8,297,824)	(8,984,368)
General Expenses - Cleaning		(8,733,257)	(8,961,030)
General Expenses - Security		(15,402,613)	(15,424,769)
General Expenses - Utilities		(10,024,173)	(10,738,512)
Total Expenditure		(64,741,573)	(59,198,027)
Loss on disposal of assets and liabilities		(13)	-
Taxation	26	-	-
Deficit for the year		(394,137)	(1,033,873)

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Note(s)	Share capital	Share premium	Total share capital	Accumulated deficit	Total equity
Opening balance as previously reported		476	163,897,014	163,897,490	(75,376,424)	88,521,066
Adjustments						
Prior year adjustments	30	-	-	-	82,548	82,548
Balance at 01 July 2008 as restated		476	163,897,014	163,897,490	(75,293,876)	88,603,614
Changes in net assets						
Deficit for the year		-	-	-	(1,033,873)	(1,033,873)
Assets found		-	-	-	141,450	141,450
Total changes		-	-	-	(892,423)	(892,423)
Balance at 01 July 2009		476	163,897,014	163,897,490	(76,186,299)	87,711,191
Changes in net assets						
Deficit for the year		-	-	-	(394,137)	(394,137)
Total changes		-	-	-	(394,137)	(394,137)
Balance at 30 June 2010		476	163,897,014	163,897,490	(76,580,436)	87,317,054

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Cash flow statement

Figures in Rand	Note(s)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		96,649,780	69,545,892
Interest income		3,252,980	5,414,573
		<u>99,902,760</u>	<u>74,960,465</u>
Payments			
Suppliers		(98,668,374)	(73,093,131)
Finance costs		(951,759)	(341,558)
		<u>(99,620,133)</u>	<u>(73,434,689)</u>
Net cash flows from operating activities	28	<u>282,627</u>	<u>1,525,776</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	<u>(607,996)</u>	<u>(1,413,010)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		<u>317,058</u>	<u>(112,354)</u>
Net increase/(decrease) in cash and cash equivalents		(8,311)	412
Cash and cash equivalents at the beginning of the year		9,000	8,588
Cash and cash equivalents at the end of the year	5	<u>689</u>	<u>9,000</u>

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003). These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the entity for similar financial instruments.

Useful lives

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

THE METROPOLITAN TRADING COMPANY (PTY) LTD

(Registration number 1999/011422/07)

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.2 Investment property (continued)

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	25 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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1.3 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Plant and machinery	6 years
Furniture and fixtures	10 years
Motor vehicles	4 - 6 years
Office equipment	3 - 5 years
IT equipment	2 - 4 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation of intangible assets begin when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the intangible asset is derecognised.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 - 7 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial Instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

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1.5 Financial Instruments (continued)

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off

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1.5 Financial Instruments (continued)

against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.7 Provisions and contingencies

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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1.7 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.8 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and

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1.8 Revenue from exchange transactions (continued)

directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Management fees

Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity for its own account.

Cash received in terms of the service level agreement between MTC and the City of Johannesburg Metropolitan Municipality to pay for cleaning and security services for the BRT stations is not recognised as revenue.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Municipal grants

Municipal grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the

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1.9 Revenue from non-exchange transactions (continued)

availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.10 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.11 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial

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1.13 Irregular expenditure (continued)

year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.14 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

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2. OPERATING LEASE ASSET (ACCRUAL)

Non-current assets	28,973,943	29,370,505
Current assets	-	-
	<u>28,973,943</u>	<u>29,370,505</u>

Land held under operating lease in terms of 99 year lease agreement with the City of Johannesburg Metropolitan Municipality.

3. TRADE AND OTHER RECEIVABLES (EXCHANGE TRANSACTIONS)

Trade debtors	31,924,619	14,028,060
Deposits	288,348	293,948
Less: Provision for impairment	(10,766,879)	(8,333,345)
Fair value adjustments	442,285	274,179
Capital work in progress - City of Johannesburg Metropolitan Municipality	4,412,673	276,869
Related party debtors	24,555,431	40,291,078
	<u>50,856,477</u>	<u>46,830,789</u>

Capital work in Progress

The Municipality received a capital grant from EPWP to the amount of R45 million. Capital work in progress is a result of capital expenditure incurred on behalf of the City of Johannesburg Metropolitan Municipality. (MTC manages the capital projects on behalf of the City). As expenses are incurred Capital work in progress is debited. On completion of the project, MTC is reimbursed and the capital expenditure is capitalised in the City of Johannesburg Metropolitan Municipality.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R 27,778,935 (2009: R 12,721,410) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	15,856,179	7,437,328
2 months past due	5,074,087	4,624,291
3 months past due	6,848,669	659,791

4. VAT RECEIVABLE

VAT	-	390,869
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5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	683	9,000
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As at 30 June 2010 The Metropolitan Trading Company (Pty) Ltd had one current account held at ABSA bank (Account number 4050 839 158 with a closing balance of R0, (2009: R0).

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6. INVESTMENT PROPERTY

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	119,336,215	(72,845,784)	46,490,431	119,336,215	(72,591,899)	46,744,316

Reconciliation of investment property - 2010

	Opening balance	Depreciation	Total
Investment property	46,744,316	(253,885)	46,490,431

Reconciliation of investment property - 2009

	Opening balance	Depreciation	Total
Investment property	46,998,201	(253,885)	46,744,316

Estimated fair value of investment properties 55,002,000 55,002,000

Investment Property with a carrying value of R46,744,316 is held under a 99 year lease agreement with the City of Johannesburg. The Investment Property comprises Metro Mall, The Yeoville flats and the Yeoville Market.

Metro Mall, Erf 601,602 and 603, Newtown, Extension 1
Yeoville flats Erf 737, Yeoville

7. PROPERTY, PLANT AND EQUIPMENT

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Plant and machinery	239,799	(191,273)	48,526	239,799	(155,303)	84,496
Furniture and fixtures	720,183	(291,155)	429,008	720,162	(229,413)	490,008
Motor vehicles	172,902	(140,658)	32,244	172,902	(127,788)	45,114
Office equipment	682,879	(282,155)	400,724	592,222	(498,016)	94,206
IT equipment	2,409,166	(1,344,806)	1,064,360	2,273,177	(911,351)	1,361,826
Total	4,224,909	(2,250,047)	1,974,862	3,998,262	(1,921,871)	2,076,391

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Depreciation	Total
Plant and machinery	84,496	-	-	(35,970)	48,526
Furniture and fixtures	490,749	-	-	(61,741)	429,008
Motor vehicles	45,114	-	-	(12,870)	32,244
Office equipment	94,206	472,007	(13)	(165,476)	400,724
IT equipment	1,361,826	135,989	-	(433,455)	1,064,360
	2,076,391	607,996	(13)	(709,512)	1,974,862

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7. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Depreciation	Impairment loss	Total
Plant and machinery	120,466	-	(35,970)	-	84,496
Furniture and fixtures	702,306	97,809	(78,411)	(230,955)	490,749
Motor vehicles	57,736	-	(12,622)	-	45,114
Office equipment	240,061	17,816	(154,782)	(8,889)	94,206
IT equipment	597,625	1,298,251	(477,057)	(56,993)	1,361,826
	1,718,194	1,413,876	(758,842)	(296,837)	2,076,391

The following leased assets are included in Property, Plant and Equipment listed above

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Office equipment	472,002	(131,115)	340,887	381,358	(381,345)	13

Assets subject to finance lease (Net carrying amount)

Office equipment	340,887	13
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Methods and assumptions used

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

8. INTANGIBLE ASSETS

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	1,153,107	(918,206)	234,901	1,153,107	(702,135)	450,972

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software	450,972	(216,071)	234,901

Reconciliation of intangible assets - 2009

	Opening balance	Amortisation	Total
Computer software	667,673	(216,701)	450,972

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	2010	2009
9. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
- within one year	181,690	-
- in second to fifth year inclusive	162,999	-
Present value of minimum lease payments	344,689	-
Present value of minimum lease payments due		
- within one year	172,333	-
- in second to fifth year inclusive	159,740	-
	332,073	-
Non-current liabilities	159,740	-
Current liabilities	172,333	-
	332,073	-

The average lease term is 3 years and the average effective borrowing rate is 11% (2009: -%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

10. TRADE AND OTHER PAYABLES (EXCHANGE TRANSACTIONS)

Accrued expenses	10,878	624,014
Adjustment for fair value at amortised cost	(68,528)	(136,775)
Deferred income	-	7,500,000
Other payables - Payroll Clearing	375,992	(3,202)
Related party creditor	7,858,674	4,239,799
Tenant deposits	469,957	472,457
Trade payables	15,783,589	8,952,368
VAT refund	16,262,990	16,262,990
	40,693,552	37,911,651

11. VAT PAYABLE

Tax refunds payables	80,618	-
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12. PROVISIONS

Reconciliation of provisions - 2010

	Opening Balance	Additions	Reversed during the year	Total
Other Provisions	250,000	108,000	(250,000)	108,000

Reconciliation of provisions - 2009

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus and leave pay	93,038	-	-	(93,038)	-
Other Provisions	521,151	250,000	(521,151)	-	250,000
	614,189	250,000	(521,151)	(93,038)	250,000

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13. SHARE CAPITAL		
Authorised		
10,000 Ordinary shares of R1 each	10,000	10,000
Issued		
Ordinary	476	476
Share premium	163,897,014	163,897,014
	163,897,490	163,897,490
14. REVENUE		
Advertising revenue	669,966	1,591,855
Electricity	1,142,530	1,059,338
Fair value adjustments	(1,922,962)	(981,860)
Informal trader rental	4,662,540	4,663,761
Miscellaneous other revenue	5,149,939	4,951,050
Municipal grants	48,059,000	40,135,000
Public transport rental	47,708	1,211,228
	57,808,721	52,630,372
The amount included in revenue arising from exchanges of goods or services are as follows:		
Electricity	1,142,530	1,059,338
Informal trader rental	4,662,540	4,663,761
Retail revenue	5,149,939	4,951,050
Public transport rental	47,708	1,211,228
	11,002,717	11,885,377
The amount included in revenue arising from non-exchange transactions is as follows:		
Advertising revenue	669,966	1,591,855
Fair value adjustments	(1,922,962)	(981,860)
Municipal grants	48,059,000	40,135,000
	46,806,004	40,744,995
15. SERVICE CHARGES		
Sale of electricity	1,142,530	1,059,338
16. MUNICIPAL GRANTS AND SUBSIDIES		
Operational grant	48,059,000	40,135,000
17. OTHER INCOME		
BRT Management fee	1,658,815	-
Tender fees received	200,900	55,800
Sundry income	1,404,388	63,409
	3,264,103	119,209

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18. GENERAL EXPENSES		
Advertising	157,156	251,888
Agency fees	62,832	75,166
Auditors remuneration	486,776	384,292
Bank charges	57,222	32,679
Billing and meter reading charges	163,487	235,757
Cleaning	8,726,570	8,961,030
Computer expenses	1,520,999	1,255,915
Consulting and professional fees	2,669,162	4,827,230
Entertainment	11,265	6,838
General expenses	806,848	32,160
Insurance	507,620	132,991
Irregular, fruitless and wasteful expenditure	36,118	15,614
Lease rentals on operating lease	402,862	431,133
Motor vehicle expenses	48,841	46,877
Pest control	335,394	297,877
Printing and stationery	178,052	115,179
Secretarial fees	-	23,303
Security (Guarding of municipal property)	15,364,137	15,424,769
Staff welfare	92,147	133,242
Subscriptions and membership fees	40,162	27,793
Taxi committee fees	16,300	31,720
Telephone and fax	728,583	579,163
Training	21,161	47,551
Utilities	10,024,173	10,738,512
	42,457,867	44,108,679

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19. EMPLOYEE RELATED COSTS

Employee related costs : Salaries and wages 11,312,133 9,283,313

Employee costs include

Remuneration of executive directors

Mr AX Sam (CEO)	966,720	912,000
Ms A Egbers (Acting CEO)	264,605	-
	1,231,325	912,000

Ms A Egbers acted as CEO from 7 April 2010 to 23 July 2010

Remuneration of non executive directors

Mr P Parirenyatwa (Chairperson)	-	79,354
Mr H Mashele	-	176,831
Ms B Skenjana	-	86,258
Ms A Botha	-	63,828
Mr Z Moosa	-	36,226
Mr M Seshabela	-	57,791
Ms M Manyama-Matome	-	43,130
Mr T Nzimakwe (Chairperson)	129,602	30,191
Ms A Egbers	165,366	25,878
Ms F Mgidi	29,760	102,643
Ms NN Mabaso	95,283	17,252
Dr KG Dakile	95,275	21,585
Mr T Tlhacoane	105,236	172,516
Mr M Luus	38,386	8,626
Dr KZ Mbatha	-	8,626
Ms MJ van Eeden	75,096	12,939
Ms L Mpuru	4,960	-
Ms R Kenose (Independent audit committee member)	4,960	-
Mr H Moolla (Independent audit committee member)	4,960	-
Mr R Theunissen (Independent audit committee member)	39,680	25,878
Ms D Ndaba (Independent audit committee member)	43,993	69,008
	832,557	1,038,540

Remuneration of chief finance officer

Mr V Kgopa	703,050	322,500
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20. DEBT IMPAIRMENT

Bad debts	2,424,326	2,228,425
Contributions to bad-debt provision	2,433,484	(886,630)
	4,857,810	1,341,795

The main contributors to the increase in provision for doubtful debt are rental income from Informal Traders.

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21. INVESTMENT REVENUE		
Interest revenue		
Fair value adjustments of receivables		
Bank	2,012,982	1,206,806
Interest charged on trade and other receivables	1,088,616	4,026,979
	151,382	180,788
	3,252,980	5,414,573

The amount included in Investment revenue arising from exchange transactions amounted to R 1,239,998.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R2,012,982 (2009: R1,206,806).

22. FAIR VALUE ADJUSTMENTS

Application of Practice Note 9 of 2008, Fair value of Revenue recognised where payment was not received according to normal credit terms

Credit terms: Rental charged in advance on the 1st payable by the last business day on or before the 7th
Interest rate used: Treasury risk free rate of 6.75% (2009:10.75%)

23. DEPRECIATION AND AMORTISATION

Property, plant and equipment	963,407	1,012,728
Intangible assets	216,071	216,701
	1,179,478	1,229,429

24. IMPAIRMENT OF ASSETS

2009 Impairments

Property, plant and equipment

A physical verification was done of all fixed assets. Assets that could not be physically verified were impaired. Several computers were also stolen during the 3rd and 4th quarter. An insurance claim is pending.

Capital Work in Progress (WIP)

When capital projects are incurred on behalf of the City of Johannesburg Metropolitan Municipality, the expenses are debited to Capital Work in Progress. The claims submitted to the City of Johannesburg Metropolitan Municipality are then used to offset against the Work in Progress. Not all claims were accepted by the City and this resulted in impairment.

	-	296,835
	-	1,241,685
	-	1,538,520

25. FINANCE COSTS

Trade and other payables		
Finance leases	-	28,201
Bank	15,015	8,900
Fair value adjustments on payables	356	478
	951,403	312,879
	966,774	350,458

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R951,403 (2009: R312,879).

26. TAXATION

No provision has been made for 2010 tax as the entity has no taxable income. The estimated tax loss available for set off against future taxable income is R 3,569,699 (2009: R 2,521,970).

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	2010	2009
27. AUDITORS' REMUNERATION		
Fees	486,776	384,292
28. CASH GENERATED FROM OPERATIONS		
Deficit	(394,137)	(1,033,873)
Adjustments for:		
Depreciation and amortisation	1,179,478	1,229,429
Gain on sale of assets and liabilities	13	-
Finance costs - Finance leases	15,015	8,900
Impairment deficit	-	1,538,520
Debt impairment	4,857,810	1,341,795
Movements in operating lease assets and accruals	396,562	396,563
Movements in provisions	(142,000)	(364,189)
Assets found	-	141,452
Impairment, Capital WIP	-	(1,242,547)
Changes in working capital:		
Trade and other receivables (Exchange transactions)	(4,025,692)	(10,817,875)
Consumer debtors	(4,857,810)	(1,341,795)
Trade and other payables (Exchange transactions)	2,781,901	11,030,819
VAT	471,487	638,577
	282,627	1,526,776

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29. RELATED PARTIES

Relationships

Controlling entity
Other members of the group

The City of Johannesburg Metropolitan Municipality
City Housing Company (Pty) Ltd
City of Johannesburg Property Company (Pty) Ltd
City of Johannesburg Metropolitan Municipality
City Power Johannesburg (Pty) Ltd
Johannesburg City Parks
Johannesburg Development Agency (Pty) Ltd
Johannesburg Metropolitan Bus Services (Pty) Ltd
Johannesburg Roads Agency (Pty) Ltd
Johannesburg Tourism Company
Johannesburg Water (Pty) Ltd
Metropolitan Trading Company (Pty) Ltd
Pikitup Johannesburg (Pty) Ltd
Roodepoort City Theatre
The Johannesburg Civic Theatre (Pty) Ltd
The Johannesburg Fresh Produce Market (Pty) Ltd
The Johannesburg Zoo
Fried shelf 128 (Pty) Ltd
Greater Newtown Development Company (Pty) Ltd
Constitutional Hill Development Company (Pty) Ltd
Joshco JV

Related party balances

Amounts included in Loans,

Trade and other receivables regarding related parties

City of Johannesburg Metropolitan Municipality	26,216,296	9,124,538
City of Johannesburg Property Company (Pty) Ltd	7,382	18,435
City of Johannesburg Metropolitan Municipality - sweeping account	(1,668,227)	31,148,105
	24,555,431	40,291,078

Amounts included in Loans,

Trade and other payables regarding related parties

City of Johannesburg Metropolitan Municipality	7,107,659	3,256,642
City Power Johannesburg (Pty) Ltd	257,424	378,449
Johannesburg Water (Pty) Ltd	(597,315)	566,664
Pikitup Johannesburg (Pty) Ltd	41,396	38,044
	6,809,164	4,239,799

Related party transactions

Sales to related parties

City of Johannesburg Metropolitan Municipality - Grants received	48,059,000	40,135,000
City of Johannesburg Metropolitan Municipality - BRT Management fee	1,658,815	-
	49,717,815	40,135,000

Purchases from related parties

City Power Johannesburg (Pty) Ltd	3,370,830	1,754,921
City of Johannesburg Metropolitan Municipality	3,934,968	4,522,005
Johannesburg Water (Pty) Ltd	1,755,256	2,633,784
Pikitup Johannesburg (Pty) Ltd	200,408	228,641
	9,261,462	9,139,351

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30. PRIOR PERIOD ERRORS

Straightlining of operating lease rentals was not done for all the applicable lease agreements.

Excessive depreciation was charged for motor vehicles for the year ended 30 June 2009

Caseware automation journals resulted in cost of property plant and equipment to be overstated and accumulated depreciation being understated. This did not affect the carrying value of assets and was corrected.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

MTC - Trade and other receivables	-	330,082
MTC - Retained income/(Accumulated deficit)	-	(82,548)
MTC - Accumulated depreciation	-	14,017
MTC - Plant and machinery: Cost	-	(35,970)
MTC - Plant and machinery: Accumulated depreciation	-	35,970
MTC - Furniture and fittings: Cost	-	(309,367)
MTC - Furniture and fittings: Accumulated depreciation	-	309,367
MTC - Office equipment: Cost	-	(16,950)
MTC - Office equipment: Accumulated depreciation	-	16,950
MTC - IT equipment: Cost	-	(1,298,251)
MTC - IT equipment: Accumulated depreciation	-	1,298,251
	-	<u>261,551</u>

Statement of financial performance

MTC - Retail rental income	-	247,534
MTC - Depreciation	-	14,017
	-	<u>261,551</u>

31. RISK MANAGEMENT

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes , , , 9 , , cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the entity may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the entity monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The entity's strategy is to maintain a gearing ratio of between % to %.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

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32. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on the City of Johannesburg continuing to provide funding.

33. EVENTS AFTER THE REPORTING DATE

Management are not aware of any matter or circumstance arising since the end of the financial year.

34. FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure	36,118	15,614
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2010

Interest paid on overdue creditor's accounts. This interest was for City Power and Joburg Water accounts as a result of late receipt of invoices. This was resolved in the last quarter of the financial year.

2009

Penalties were incurred for the late payment of PAYE for August 2008. Changes were made to cheque signatories and were not yet effective. This caused a delay in the signing of the cheque and resulted in the late payment.

35. IRREGULAR EXPENDITURE

Reconciliation of irregular expenditure

Unauthorised expenditure current year	-	15,183
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2009

Cellphone costs to former acting CEO

Following the resignation of the CEO in 2008 an acting CEO was appointed until April 2008. This entitled him to a company cell phone for the period that he was acting CEO. Although he was replaced by the new CEO the acting CEO to use the cellphone at the expense of the company. The service was terminated in March 2009 after an expense of R15,183 had accumulated. The company is currently pursuing the acting CEO to recover the cost.

Procurement of goods and services

The company has put mechanisms in place to ensure that the supply chain policy is adhered to. This includes among others the appointment of a compliance manager and the development of a compliance checklist.

36. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(394,137)	(1,033,873)
Adjusted for:		
Fair value adjustments	1,922,962	981,860
Revenue	(9,434,398)	(3,572,620)
Expenses	8,493,482	3,624,633
	587,909	-

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37. DEVIATION FROM SUPPLY CHAIN MANAGEMENT POLICIES

Supply chain management policy

Section 19(1) of the Supply Chain Management Policy provides for deviation from the procurement policy under the following circumstances:

- a) Emergency or Exceptional cases
- b) If such goods or services are produced or available from a single/sole provider only;
- c) For the acquisition of the special works of art or historical objects where specifications are difficult to compile;

Section 19(2) provides that deviations must be recommended by the Accounting Officer for consideration by the Board.

Section 19(3) provides that the Accounting officer must record the reasons for any deviations from procurement mechanisms and report to the Board.

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APPENDIX E(1) for the year ended 30 June 2010

Yearly

	Actual Balance Rand	Original Budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Electricity	1,142,530	1,200,000	(57,470)	(4.8)	
Public transport revenue	47,708	1,200,000	(1,152,292)	(96.0)	Due to the refusal of taxi operators to sign user agreements with the company, revenue from this source can not be recognised. Access control to facilities is being considered to overcome this problem. This resulted in the line item being under budget.
Municipal grants	48,059,000	40,559,003	7,499,997	18.5	
Informal Trade rental	4,862,540	4,800,000	62,540	1.4	
Fair value adjustments	(1,922,962)	-	(1,922,962)	-	
Retail rental	5,149,939	4,715,008	434,933	9.2	
Advertising revenue	669,966	2,486,999	(1,817,033)	(73.1)	Delay in the signing of advertising contracts. The process is now nearing completion.
	57,808,721	54,761,008	3,047,713	5.6	
Other income					
Recoveries	3,285,748	122,004	3,163,744	2,593.1	
Interest received - investment	3,252,980	1,953,001	1,299,979	66.6	Positive bank balance and fair value adjustments
	6,538,728	2,075,005	4,463,723	215.1	
Gross Profit	64,347,449	58,836,013	7,511,436	13.2	
Expenses					
Employee related costs	(11,312,133)	(11,724,995)	412,862	(3.5)	
Bad debts	(4,857,810)	(1,451,597)	(3,406,213)	234.7	This followed a thorough review of the level of collection and budgeted provision for bad debts. The outcome thereof led to the actual provision being higher than the budget. This is due to amongst others; credit control capacity within the company that has since been improved.
Depreciation	(963,406)	(1,433,578)	470,172	(32.8)	This resulted from a review of previous practice by the Company to depreciate leased land. For the year under review, the depreciation charge reduced as a result of above process.
Amortisation	(216,071)	(216,759)	688	(0.3)	
Repairs and maintenance	(3,967,511)	(1,360,000)	(2,607,511)	191.7	This is expenses carried over from the previous financial year, following an audit adjustment to treat what management has regarded as expense, as commitment. At that time the final budget allocations had been approved.
Finance costs	(966,774)	-	(966,774)	-	
General expenses	(42,457,867)	(40,061,175)	(2,396,692)	6.0	
Surplus on disposal of property, plant, plant and equipment	(13)	-	(13)	-	
	(64,741,565)	(58,248,104)	(8,493,461)	15.1	
Operating profit	(394,136)	587,909	(982,045)	(167.0)	
Other revenue and costs					
Net surplus/ (deficit) for the year	(394,136)	587,909	(982,045)	(167.0)	
Taxation					
Profit/(Loss) for the year	(394,136)	587,909	(982,045)	(167.0)	