# THE METROPOLITAN TRADING COMPANY SOC LTD
Annual Financial Statements
for the year ended 30 June 2011

The Auditor-General South Africa
Issued 31 August 2011

# THE METROPOLITAN TRADING COMPANY SOC LTD

(Registration number 1999/011422/07)
Annual Financial Statements for the year ended 30 June 2011

## General Information

| | |
|---|---|
| **COUNTRY OF INCORPORATION AND DOMICILE** | South Africa |
| **NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES** | Management of retail markets for formal and informal traders, ranking and holding facilities for public transport operators, provision of support to traders. 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. |
| **CHIEF FINANCE OFFICER (CFO)** | Mr V Kgopa |
| **DIRECTORS** | Ms X Hloma (Chairman)<br>Mr A Sam (CEO)<br>Ms B Skenjana<br>Ms D Dondur<br>Ms F Segole<br>Ms L Mpuru<br>Ms N Singh |
| **REGISTERED OFFICE** | 171 Bree Street<br>Newtown<br>Johannesburg<br>2113 |
| **BUSINESS ADDRESS** | 171 Bree Street<br>Metro Mall<br>Top Deck<br>Johannesburg<br>2113 |
| **POSTAL ADDRESS** | P O Box 870<br>Newtown<br>Johannesburg<br>2113 |
| **CONTROLLING ENTITY** | The City of Johannesburg Metropolitan Municipality |
| **BANKERS** | ABSA Bank Limited |
| **AUDITORS** | The Auditor-General South Africa |
| **SECRETARY** | Mr MJ Mashapa |
| **COMPANY REGISTRATION NUMBER** | 1999/011422/07 |

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(Registration number 1999/011422/07)
Annual Financial Statements for the year ended 30 June 2011

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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) |
| NPC | Non-profit company |
| SOC | State-owned company |

## 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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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 2012 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 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 there is 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 37, which have been prepared on the going concern basis, were approved by the directors on 31 August 2011 and were signed on its behalf by:

| | |
|---|---|
| **Mr MJ Mashele** | **Ms X Hloma (Chairman)** |
| **Chief Executive Officer (Acting)** | **Non-executive director** |

## Directors' Report

The directors submit their report for the year ended 30 June 2011.

### 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. 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.

The mandate of the company includes the management of the Rea Vaya 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 set out fully in the attached annual financial statements and do not in our opinion require any further comment.

The company incurred a net deficit of R 2,349,021 (2010: deficit R 478,316).

Included in the deficit of R2,349,021 is an abnormally high leave accrual of R1,695,519 (Refer Note 18). Company policy allows a maximum of 5 leave days to be carried over to the next financial year unless approved by the CEO. All leave was cancelled in the last part of the last quarter to meet operational requirements and therefor resulted in a much larger than usual leave accrual.

### 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 City of Johannesburg Metropolitan Municipality has provided an operating subsidy of R45.293 million (2010: R48.059 million). Capital expenditure was funded by the City of Johannesburg Metropolitan Municipality for the current financial year of R7 million (2010: R0 million).

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, other than the item mentioned below, 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.

The City of Johannesburg undertook an institutional review and in principle it has been decided that the MTC mandate will be taken over by the City of Johannesburg and various other municipal owned entities.

The Institutional Review and the consequential moratorium on senior appointments, resulted in significant challenges for the company. The moratorium resulted in a shortfall in crucial areas of expertise and thus posed significant challenges within the company.

### 5. DIRECTORS' INTEREST IN CONTRACTS

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

## Directors' Report

### 6. BORROWING LIMITATIONS

Section 108 of the Municipal Finance Management Act 56 of 2003 provides that the Metropolitan Trading Company SOC 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.

### 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 |
|---|---|
| Ms X Hloma (Chairman) | Appointed 19 August 2010 |
| Mr A Sam (CEO) | |
| Ms B Skenjana | Appointed 19 August 2010 |
| Ms D Dondur | Appointed 19 August 2010 |
| Mr F Matabane | Appointed 19 August 2010, resigned 20 July 2011 |
| Ms F Segole | Appointed 19 August 2010 |
| Mr J Nkeli | Appointed 19 August 2010, resigned 31 March 2011 |
| Ms L Mpuru | |
| Mr M Luus | Resigned 08 March 2011 |
| Ms N Singh | Appointed 19 August 2010 |

The following directors resigned at the beginning of the year:

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

**Chief Executive Officer**
On 7 April 2010 the Chief Executive Officer of the company was put on special leave and resumed his duties on 26 July 2010. He was again put on special leave on 4 April 2011. Mr MJ Mashele was appointed as acting Chief Executive Officer on the same day.

### 10. SECRETARY

The secretary of the entity is Mr MJ Mashapa

Business address

Top Deck, Metro Mall
171 Bree Street
Newtown
Johannesburg

Postal address

PO Box 870
Newtown
2113

## 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 SOC 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 every three months.

**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 |
|---|---|---|---|---|
| Ms X Hloma (Chairman) | 13 | - | - | 1 |
| Ms B Skenjana | 9 | - | 5 | - |
| Ms D Dondur | 9 | 9 | 2 | - |
| Mr F Matabane | 11 | - | 1 | 2 |
| Ms F Segole | 12 | - | - | 2 |
| Mr J Nkele | - | - | 2 | - |
| Ms L Mpuru | 10 | - | 5 | - |
| Ms N Singh | 9 | 9 | - | 1 |
| Mr T Nzimakwe (Chairman) | 1 | - | - | - |
| Dr K Dakile | 1 | - | - | - |
| Mr M Luus | - | 1 | - | - |
| Ms M van Eeden | 1 | - | - | - |
| Mr T Thlocoane | 1 | 1 | - | - |
| * Mr H Moolla | - | 9 | - | - |
| * Ms R Kenosi | - | 8 | - | - |
| * Mr R Theunissen | - | 9 | - | - |
| Total number of meetings held | 13 | 10 | 6 | 2 |

**Committees**

*Independent audit committee members

**The chair persons of the following committees are:**

| | |
|---|---|
| Audit and Risk committee | Ms N Singh |
| Human Resources committee | Ms L Mpuru |
| Operations committee | Mr F Matabane |

### 12. SHARE CAPITAL

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.

## Company Secretary's Certification

**Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act**

In terms of section 268G(d) of the Companies Act, Act 61 of 1973 (as amended), section 88(2)(e) of the Companies Act, Act 71 of 2008 (as amended) and the Municipal Finance Management Act, Act 56 of 2003, I confirm that, the company has not lodged and/or filed, for the financial year ended 30 June 2011, all such returns and notices as required due to technical difficulties experienced by CIPC.

**Mr MJ Mashapa**
**Company Secretary**

**Johannesburg**
**31 August 2011**

# THE METROPOLITAN TRADING COMPANY SOC LTD

(Registration number 1999/011422/07)
Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Trade and other receivables | 3 | 57,381,521 | 52,524,710 |
| VAT receivable | 4 | 1,074,570 | 1,536,590 |
| Cash and cash equivalents | 5 | 16,106 | 683 |
| | | **58,472,197** | **54,061,983** |
| **Non-Current Assets** | | | |
| Investment property | 6 | 46,237,171 | 46,490,431 |
| Property, plant and equipment | 7 | 1,790,142 | 2,237,893 |
| Intangible assets | 8 | 175,884 | 234,901 |
| Operating lease asset | 2 | 28,577,380 | 28,973,943 |
| | | **76,780,577** | **77,937,168** |
| **Total Assets** | | **135,252,774** | **131,999,151** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 9 | 417,603 | 306,708 |
| Trade and other payables | 10 | 48,379,131 | 42,361,779 |
| Provisions | 11 | - | 108,000 |
| | | **48,796,734** | **42,776,487** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 9 | - | 417,603 |
| **Total Liabilities** | | **48,796,734** | **43,194,090** |
| **Net Assets** | | **86,456,040** | **88,805,061** |
| **NET ASSETS** | | | |
| Share capital and share premium | 12 | 163,897,489 | 163,897,489 |
| Accumulated deficit | | (77,441,449) | (75,092,428) |
| **Total Net Assets** | | **86,456,040** | **88,805,061** |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **Revenue** | | | |
| Electricity | 14 | 1,479,765 | 1,142,530 |
| Public transport rental | | 731,717 | 47,708 |
| Municipal grants | 15 | 45,293,000 | 48,059,000 |
| Advertising revenue | | 2,006,357 | 669,966 |
| Informal trader rental | | 4,928,996 | 4,662,540 |
| Fair value adjustments | | (513,399) | (1,922,962) |
| Retail rental | | 5,772,128 | 5,149,939 |
| Recoveries | | - | 21,645 |
| Other income | 16 | 2,085,998 | 3,264,103 |
| Interest received - investment | 20 | 735,004 | 3,252,980 |
| **Total Revenue** | | **62,519,566** | **64,347,449** |
| **Expenditure** | | | |
| Employee costs | 18 | (17,417,589) | (11,312,133) |
| Depreciation and amortisation | 22 | (1,382,825) | (1,335,805) |
| Impairment loss | 23 | (257,718) | - |
| Finance costs | 24 | (834,175) | (1,616,753) |
| Bad debts | 19 | (4,273,484) | (4,857,810) |
| Repairs and maintenance | | (893,056) | (3,967,511) |
| Loss on disposal of assets | | - | (13) |
| General Expenses | 17 | (7,265,595) | (7,575,684) |
| Cleaning | | (6,158,083) | (8,733,257) |
| Security | | (17,993,753) | (15,402,613) |
| Utilities | | (8,392,309) | (10,024,173) |
| **Total Expenditure** | | **(64,868,587)** | **(64,825,752)** |
| Loss on disposal of assets and liabilities | | - | (13) |
| Taxation | 25 | - | - |
| **Deficit for the year** | | **(2,349,021)** | **(478,316)** |

# THE METROPOLITAN TRADING COMPANY SOC LTD

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## Statement of Changes in Net Assets

| Figures in Rand | Note(s) | Share capital | Share premium | Total share capital | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 01 July 2009** | | **475** | **163,897,014** | **163,897,489** | **(74,614,112)** | **89,283,377** |
| Changes in net assets | | | | | | |
| Deficit for the year | | - | - | - | (478,316) | (478,316) |
| Total changes | | - | - | - | (478,316) | (478,316) |
| Opening balance as previously reported | | 475 | 163,897,014 | 163,897,489 | (76,709,637) | 87,187,852 |
| Adjustments | | | | | | |
| Prior year adjustments | 29 | - | - | - | 1,617,209 | 1,617,209 |
| **Balance at 01 July 2010 as restated** | | **475** | **163,897,014** | **163,897,489** | **(75,092,428)** | **88,805,061** |
| Changes in net assets | | | | | | |
| Deficit for the year | | - | - | - | (2,349,021) | (2,349,021) |
| Total changes | | - | - | - | (2,349,021) | (2,349,021) |
| **Balance at 30 June 2011** | | **475** | **163,897,014** | **163,897,489** | **(77,441,449)** | **86,456,040** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2011 | 2010 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 57,389,778 | 96,649,780 |
| Interest income | | 735,004 | 3,252,980 |
| | | 58,124,782 | 99,902,760 |
| **Payments** | | | |
| Employee costs | | (16,162,048) | (11,312,133) |
| Suppliers | | (39,925,908) | (85,343,330) |
| Finance costs | | (257,335) | (951,759) |
| | | (56,345,291) | (97,607,222) |
| **Net cash flows from operating activities** | 27 | **1,779,491** | **2,295,538** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 7 | (452,698) | (847,996) |
| Purchase of other intangible assets | 8 | (170,098) | - |
| Impairment loss | | (257,718) | - |
| **Net cash flows from investing activities** | | **(880,514)** | **(847,996)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Finance lease payments | | (883,548) | (1,170,730) |
| **Net increase in cash and cash equivalents** | | **15,423** | **276,812** |
| Cash and cash equivalents at the beginning of the year | | 683 | (276,128) |
| **Cash and cash equivalents at the end of the year** | 5 | **16,106** | **684** |

## Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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.

## Accounting Policies

**1.2 Investment property (continued)**

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.

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 installments 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:

- Where the owner occupied space is less than 40% of total space, property is classified as investment property.

**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, its 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.

# Accounting Policies

**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.

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.

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.

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.

# Accounting Policies

### 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 of 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:
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

**Initial recognition and measurement**

# Accounting Policies

**1.5 Financial instruments (continued)**

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

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.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the entity's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

**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.

# Accounting Policies

**1.5 Financial instruments (continued)**

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 uncollectable, it is written off 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**

## Accounting Policies

**1.6 Tax (continued)**

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.

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.

**1.7 Provisions and contingencies (continued)**

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 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 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.

# Accounting Policies

**1.8 Revenue from exchange transactions (continued)**

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 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 program 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, which-ever is earlier.

When government remit grants on a re-imbursement 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.

# Accounting Policies

### 1.11 Unauthorised expenditure

Unauthorised expenditure means:
- overspending
- expenditure not in accordance with the budget.

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 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 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 programmer/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

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 2. Operating lease asset (accrual)

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

### 3. Trade and other receivables

| | | |
|---|---|---|
| Trade debtors | 16,064,842 | 31,924,625 |
| Deposits | 489,522 | 288,348 |
| Less: Provision for impairment | (13,505,056) | (10,766,879) |
| Fair value adjustments | 532,521 | 442,285 |
| Capital work in progress - City of Johannesburg Metropolitan Municipality | - | 4,412,673 |
| Sundry debtors | 214,779 | - |
| Related party debtors | 53,584,913 | 26,223,658 |
| | **57,381,521** | **52,524,710** |

**Capital work in Progress**

The Municipality received a capital grant from EPWP 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 past due but are not considered to be impaired. At 30 June 2011, R 37,882,061 (2010: R 27,778,935) were past due but not impaired.

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

| | | |
|---|---|---|
| 1 month past due | 9,374,424 | 15,856,179 |
| 2 months past due | 26,108,074 | 5,074,087 |
| 3 months past due | 2,399,563 | 6,848,669 |

**Reconciliation of provision for impairment of trade and other receivables**

| | | |
|---|---|---|
| Opening balance | 10,766,879 | 8,333,345 |
| Provision for impairment | 4,273,484 | 4,858,018 |
| Amounts written off as uncollectable | (1,535,307) | (2,424,484) |
| | **13,505,056** | **10,766,879** |

### 4. VAT receivable

| | | |
|---|---|---|
| VAT | 1,074,570 | 1,536,590 |

### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 276 | 683 |
| Bank balances | 15,830 | - |
| | **16,106** | **683** |

As at 30 June 2011 The Metropolitan Trading Company SOC Ltd had one current account held at ABSA bank (Account number 4050 839 158 with a closing balance of R16,106, (2010: R0).

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 6. Investment property

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 119,336,215 | (73,099,044) | 46,237,171 | 119,336,215 | (72,845,784) | 46,490,431 |

**Reconciliation of investment property - 2011**

| | **Opening balance** | **Depreciation** | **Total** |
|---|---|---|---|
| Investment property | 46,490,431 | (253,260) | 46,237,171 |

**Reconciliation of investment property - 2010**

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

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

**Details of property**

**Metro Mall, Erf 601,602 and 603, Newtown, Extension 1**
Investment Property is held under a 99 year lease agreement with the City of Johannesburg

| | | |
|---|---|---|
| - Cost | 112,498,058 | 112,498,058 |
| - Accumulated depreciation and impairment | (69,588,058) | (69,588,058) |
| | **42,910,000** | **42,910,000** |

**Yeoville market & flats, Erf 737 & Erf 1304, Yeoville**

| | | |
|---|---|---|
| - Cost (Land) | 487,200 | 487,200 |
| - Accumulated depreciation | - | - |
| | **487,200** | **487,200** |

**Yeoville market & flats, Erf 737 & Erf 1304, Yeoville**

| | | |
|---|---|---|
| - Cost (Buildings) | 6,350,957 | 6,350,957 |
| - Accumulated depreciation | (3,510,987) | (3,257,726) |
| | **2,839,970** | **3,093,231** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 7. Property, plant and equipment

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Plant and machinery | 239,799 | (212,604) | 27,195 | 239,799 | (191,273) | 48,526 |
| Furniture and fixtures | 744,833 | (369,585) | 375,248 | 720,163 | (291,155) | 429,008 |
| Motor vehicles | 315,664 | (167,685) | 147,979 | 172,902 | (140,658) | 32,244 |
| Office equipment | 717,949 | (479,090) | 238,859 | 682,879 | (282,155) | 400,724 |
| IT equipment | 3,128,335 | (2,127,474) | 1,000,861 | 2,878,147 | (1,550,756) | 1,327,391 |
| **Total** | **5,146,580** | **(3,356,438)** | **1,790,142** | **4,693,890** | **(2,455,997)** | **2,237,893** |

**Reconciliation of property, plant and equipment - 2011**

| | **Opening balance** | **Additions** | **Depreciation** | **Total** |
|---|---|---|---|---|
| Plant and machinery | 48,526 | - | (21,331) | 27,195 |
| Furniture and fixtures | 429,008 | 24,670 | (78,430) | 375,248 |
| Motor vehicles | 32,244 | 142,762 | (27,027) | 147,979 |
| Office equipment | 400,724 | 35,078 | (196,943) | 238,859 |
| IT equipment | 1,327,391 | 250,188 | (576,718) | 1,000,861 |
| | **2,237,893** | **452,698** | **(900,449)** | **1,790,142** |

**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 | 1,541,184 | 375,989 | - | (589,782) | 1,327,391 |
| | **2,255,749** | **847,996** | **(13)** | **(865,839)** | **2,237,893** |

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **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 |
| Computer equipment | 468,981 | (362,276) | 106,705 | 468,981 | (205,949) | 263,032 |
| **Total** | **940,983** | **(493,391)** | **447,592** | **850,339** | **(587,294)** | **263,045** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 8. Intangible assets

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software | 1,493,303 | (1,317,419) | 175,884 | 1,153,107 | (918,206) | 234,901 |

**Reconciliation of intangible assets - 2011**

| | **Opening balance** | **Additions** | **Amortisation** | **Total** |
|---|---|---|---|---|
| Computer software | 234,901 | 170,098 | (229,115) | 175,884 |

**Reconciliation of intangible assets - 2010**

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

### 9. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 610,278 | 843,312 |
| - in second to fifth year inclusive | - | 610,278 |
| | 610,278 | 1,453,590 |
| less: future finance charges | (192,675) | (729,279) |
| **Present value of minimum lease payments** | **417,603** | **724,311** |
| **Present value of minimum lease payments due** | | |
| - within one year | 417,603 | 306,708 |
| - in second to fifth year inclusive | - | 417,603 |
| | **417,603** | **724,311** |
| Non-current liabilities | - | 417,603 |
| Current liabilities | 417,603 | 306,708 |
| | **417,603** | **724,311** |

The average lease term is 3 years and the average effective borrowing rate is 6% (2010: 11%).

All leases have fixed repayments and no arrangements have been entered into for contingent rent.

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 10. Trade and other payables

| | | |
|---|---|---|
| Accrued expenses | 768,490 | 10,878 |
| Adjustment for fair value at amortised cost | (152,505) | (68,528) |
| Other payables - Payroll Clearing | 2,111,195 | 375,992 |
| Related party creditor | 19,781,702 | 9,526,901 |
| Tenant deposits | 499,557 | 469,957 |
| Trade payables | 9,107,702 | 15,783,589 |
| VAT refund | 16,262,990 | 16,262,990 |
| | **48,379,131** | **42,361,779** |

### 11. Provisions

**Reconciliation of provisions - 2011**

| | Opening Balance | Reversed during the year | Total |
|---|---|---|---|
| Other Provisions | 108,000 | (108,000) | - |

**Reconciliation of provisions - 2010**

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

### 12. Share capital and share premium

**Authorised**

| | | |
|---|---|---|
| 10,000 Ordinary shares of R1 each | 10,000 | 10,000 |

**Issued**

| | | |
|---|---|---|
| Ordinary | 475 | 475 |
| Share premium | 163,897,014 | 163,897,014 |
| | **163,897,489** | **163,897,489** |

### 13. Revenue

| | | |
|---|---|---|
| Electricity | 1,479,765 | 1,142,530 |
| Public transport rental | 731,717 | 47,708 |
| Municipal grants | 45,293,000 | 48,059,000 |
| Sundry | 2,006,357 | 669,966 |
| Informal trader rental | 4,928,996 | 4,662,540 |
| Fair value adjustments | (513,399) | (1,922,962) |
| Miscellaneous other revenue | 5,772,128 | 5,149,939 |
| | **59,698,564** | **57,808,721** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **13. Revenue (continued)** | | |
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Electricity | 1,479,765 | 1,142,530 |
| Public transport rental | 731,717 | 47,708 |
| Advertising revenue | 2,006,357 | 669,966 |
| Informal trader rental | 4,928,996 | 4,662,540 |
| Retail revenue | 5,772,128 | 5,149,939 |
| | **14,918,963** | **11,672,683** |
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Transfer revenue** | | |
| Municipal grants | 45,293,000 | 48,059,000 |
| Fair value adjustments | (513,399) | (1,922,962) |
| | **44,779,601** | **46,136,038** |
| **14. Service charges** | | |
| Sale of electricity | 1,479,765 | 1,142,530 |
| **15. Municipal grants and subsidies** | | |
| Operational grant | 45,293,000 | 48,059,000 |
| **16. Other income** | | |
| BRT Management fee | 1,048,694 | 1,658,815 |
| Tender fees received | 339,579 | 200,900 |
| Sundry income | 697,725 | 1,404,388 |
| | **2,085,998** | **3,264,103** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 17. General expenses

| | | |
|---|---|---|
| Advertising | 419,259 | 157,156 |
| Agency fees | 64,195 | 62,832 |
| Auditors remuneration | 961,053 | 486,776 |
| Bank charges | 53,152 | 57,222 |
| Billing and meter reading charges | 138,609 | 163,487 |
| Cleaning | 6,158,083 | 8,726,570 |
| Computer expenses | 775,842 | 798,873 |
| Consulting and professional fees | 2,081,737 | 2,669,162 |
| Entertainment | 44,491 | 11,265 |
| General expenses | 132,301 | 806,847 |
| Insurance | 403,480 | 507,620 |
| Irregular, fruitless and wasteful expenditure | - | 36,118 |
| Lease rentals on operating lease | 405,857 | 402,862 |
| Motor vehicle expenses | 34,071 | 48,841 |
| Pest control | 434,505 | 335,394 |
| Printing and stationery | 343,941 | 178,052 |
| Security (Guarding of municipal property) | 17,993,753 | 15,364,137 |
| Staff welfare | 196,755 | 92,147 |
| Subscriptions and membership fees | 21,947 | 40,162 |
| Taxi committee fees | - | 16,300 |
| Telephone and fax | 604,164 | 728,583 |
| Training | 150,236 | 21,161 |
| Utilities | 8,392,309 | 10,024,173 |
| | **39,809,740** | **41,735,740** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 18. Employee related costs

| | | |
|---|---|---|
| Employee related costs : Salaries and wages | 15,722,070 | 11,560,155 |
| Leave accrual | 1,695,519 | (248,022) |
| | **17,417,589** | **11,312,133** |

Employee costs include

**Remuneration of executive directors**

| | | |
|---|---|---|
| Mr AX Sam (CEO) | 1,068,809 | 966,720 |
| Ms A Egbers (Acting CEO) | - | 264,605 |
| *Mr MJ Mashele (Acting CEO) | 594,717 | - |
| | **1,663,526** | **1,231,325** |

Mr J Mashele acted as CEO from 4 April 2011.
Ms A Egbers acted as CEO from 7 April 2010 to 23 July 2010.

*Mr MJ Mashele is not a director of the company.

**Remuneration of non executive directors**

| | | |
|---|---|---|
| Ms X Hloma (Chairman) | 274,876 | - |
| Ms B Skenjana | 99,210 | - |
| Ms D Dondur | 163,710 | - |
| Ms F Matebane | 140,672 | - |
| Ms F Segole | 111,110 | - |
| Mr J Nkele | 29,762 | - |
| Ms L Mpuru | 124,000 | - |
| Ms N Singh | 235,110 | - |
| Mr T Nzimakwe (Chairman) | 19,840 | 129,602 |
| Ms A Egbers | - | 165,366 |
| Ms F Mgidi | - | 29,760 |
| Dr K Dakile | 4,960 | 95,275 |
| Ms L Mpuru | - | 4,960 |
| Mr M Luus | 34,720 | 38,386 |
| Ms M van Eeden | 9,920 | 75,096 |
| Ms N Mabaso | - | 95,283 |
| Mr T Tlhacoane | 39,680 | 105,236 |
| Ms D Ndaba (Independent audit committee member) | - | 43,993 |
| Mr H Moolla (Independent audit committee member) | 88,290 | 4,960 |
| Ms R Kenosi (Independent audit committee member) | 82,340 | 4,960 |
| Mr R Theunissen (Independent audit committee member) | 101,190 | 39,680 |
| | **1,559,390** | **832,557** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Mr V Kgopa | 757,912 | 703,050 |

### 19. Bad debt

| | | |
|---|---|---|
| Bad debts | 1,535,307 | 2,424,326 |
| Contributions to bad-debt provision | 2,738,177 | 2,433,484 |
| | **4,273,484** | **4,857,810** |

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

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 20. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Fair value adjustments of receivables | 517,751 | 2,012,982 |
| Bank | 61,798 | 1,088,616 |
| Interest charged on trade and other receivables | 155,455 | 151,382 |
| | **735,004** | **3,252,980** |

The amount included in Investment revenue arising from exchange transactions amounted to R 217,253. (2010: R1,239,998)

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R517,751 (2010: R2,012,982).

### 21. Fair value adjustments

Application of Practice Note 9 of 2006, 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 5.24% (2010 6.75%)

### 22. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 1,153,710 | 1,119,734 |
| Intangible assets | 229,115 | 216,071 |
| | **1,382,825** | **1,335,805** |

### 23. Impairment of assets

| | | |
|---|---|---|
| Capital Work in Progress (WIP)<br>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. | 257,718 | - |

### 24. Finance costs

| | | |
|---|---|---|
| Trade and other payables | 189,021 | - |
| Finance leases | 576,840 | 664,994 |
| Bank | 350 | 356 |
| Fair value adjustments on payables | 67,964 | 951,403 |
| | **834,175** | **1,616,753** |

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R67,964 (2010: R951,403).

### 25. Taxation

No provision has been made for 2011 tax as the entity has no taxable income. The estimated tax loss available for set off against future taxable income is R 6,200,266 (2010: R 4,502,328).

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|
| **26. Auditor's remuneration** | | |
| Fees | 961,053 | 486,776 |
| **27. Cash generated from operations** | | |
| Deficit | (2,349,021) | (478,316) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 1,382,825 | 1,335,805 |
| Gain on sale of assets and liabilities | - | 13 |
| Finance costs - Finance leases | 576,840 | 664,994 |
| Impairment deficit | 257,718 | - |
| Debt impairment | 4,273,484 | 4,857,810 |
| Movements in operating lease assets and accruals | 396,563 | 396,562 |
| Movements in provisions | (108,000) | (142,000) |
| **Changes in working capital:** | | |
| Trade and other receivables | (4,856,806) | (9,648,596) |
| Consumer debtors | (4,273,484) | (4,857,810) |
| Trade and other payables | 6,017,352 | 9,695,589 |
| VAT | 462,020 | 471,487 |
| | **1,779,491** | **2,295,538** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 28. Related parties

**Relationships**

| | |
|---|---|
| Controlling entity | The City of Johannesburg Metropolitan Municipality |
| Other members of the group | City Housing Company SOC Ltd |
| | City of Johannesburg Property Company SOC Ltd |
| | City of Johanneburg Metropolitan Municipality |
| | City Power Johannesburg SOC Ltd |
| | Johannesburg City Parks NPC |
| | Johannesburg Development Agency SOC Ltd |
| | Johannesburg Metropolitan Bus Services SOC Ltd |
| | Johannesburg Roads Agency SOC Ltd |
| | Johannesburg Tourism Company NPC |
| | Johannesburg Water SOC Ltd |
| | Metropolitan Trading Company SOC Ltd |
| | Pikitup Johannesburg SOC Ltd |
| | Roodepoort City Theatre NPC |
| | The Johannesburg Civic Theatre SOC Ltd |
| | The Johannesburg Fresh Produce Market SOC Ltd |
| | The Johannesburg Zoo NPC |
| | Fried shelf 128 SOC Ltd |
| | Greater Newtown Development Company SOC Ltd |
| | Constitutional Hill Development Company SOC Ltd |
| | Joshco JV |

**Related party balances**

| | | |
|---|---|---|
| **Amounts included in Loans, Trade and other receivables regarding related parties** | | |
| City of Johannesburg Metropolitan Municipality | 53,584,913 | 26,216,296 |
| City of Johannesburg Property Company SOC Ltd | - | 7,362 |
| | **53,584,913** | **26,223,658** |
| **Amounts included in Loans, Trade and other payables regarding related parties** | | |
| City of Johannesburg Metropolitan Municipality | 9,450,153 | 7,107,659 |
| City of Johannesburg- Sweeping account | 10,331,549 | 1,668,227 |
| City Power Johannesburg SOC Ltd | - | 257,424 |
| Johannesburg Water SOC Ltd | - | (597,315) |
| Pikitup Johannesburg SOC Ltd | - | 41,396 |
| | **19,781,702** | **8,477,391** |

**Related party transactions**

| | | |
|---|---|---|
| **Sales to related parties** | | |
| City of Johannesburg Metropolitan Municipality - Grants received | 45,293,000 | 48,059,000 |
| City of Johannesburg Metropolitan Municipality - BRT Management fee | 1,048,694 | 1,658,815 |
| | **46,341,694** | **49,717,815** |
| **Purchases from related parties** | | |
| City Power Johannesburg SOC Ltd | - | 3,370,830 |
| City of Johannesburg Metropolitan Municipality | 6,980,507 | 3,934,968 |
| Johannesburg Water SOC Ltd | - | 1,755,256 |
| Pikitup Johannesburg SOC Ltd | - | 200,408 |
| | **6,980,507** | **9,261,462** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 29. Prior period adjustments

Computer equipment was leased under agreements that should have been classified as finance leases in terms of GRAP 13. These lease payments were expensed as computer expenses in 2009 and 2010.

VAT refunds were received in August 2010 in line with VAT returns submitted to SARS. This receivable was not reflected in the accounting records in the previous year.

The adjustments are as follows:

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Computer equipment - Cost (Adjustment) | - | 468,981 |
| Computer equipment - Accumulated depreciation (Adjustment) | - | (205,949) |
| Retained income (Adjustment) | - | 32,881 |
| Finance leases (Adjustment) | - | (392,238) |
| VAT control (Correction of error) | - | 1,617,209 |
| Retained income (Correction of error) | - | (1,617,209) |
| | **-** | **(96,325)** |

| | | |
|---|---|---|
| **Statement of financial performance** | | |
| Depreciation - Computer equipment | - | 156,326 |
| Finance charges | - | 613,981 |
| Computer expenses | - | (673,982) |
| | **-** | **96,325** |

### 30. 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.

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.

**Liquidity risk**

The entity’s risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

## Notes to the Annual Financial Statements

| Figures in Rand | 2011 | 2010 |
|---|---|---|

### 31. 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.

### 32. Events after the reporting date

The City of Johannesburg undertook an institutional review and in principle it has been decided that the MTC mandate will be taken over by the City of Johannesburg and various other municipal owned entities.

### 33. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| **Reconciliation of fruitless and wasteful expenditure** | | |
| Fruitless and wasteful expenditure | 697,236 | 36,118 |

2011

Lease payments of R508,215 was made for Voice over internet protocol (VOIP) and WIFI installions. These systems were installed but there were no computers at the respective markets to use these services.

Interest of R189,021 was paid on overdue accounts. 98% of this was interest paid on the overdrawn sweeping account. This account was overdrawn because MTC experienced cash flow problems because of its inabillity to collect inter company debtors. The process issues that caused these problems were resolved in the last quarter of the financial year.

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.

### 34. Irregular expenditure

**Details of irregular expenditure – current year**

| | **Disciplinary steps taken/criminal proceedings** | |
|---|---|---|
| No bid documentation (Waste removal agreement entered into 2005) | Tender was advertised when the situation came to the attention of management. | 1,015,510 |
| Awards to employees in service of the state | The matter is under investigation so that appropriate steps can be taken | 122,021 |
| No quotations attached | The matter is under investigation so that appropriate steps can be taken | 215,080 |
| Non compliance with SCM policy | The matter is under investigation so that appropriate steps can be taken | 54,019 |
| | | **1,406,630** |

### 35. 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 | (2,349,021) | (478,316) |
| **Adjusted for:** | | |
| Increases / (decreases) in leave accrual | 1,695,519 | - |
| Revenue | 76,434 | (7,511,436) |
| Expenses | 577,068 | 8,577,661 |
| **Net surplus per approved budget** | **-** | **587,909** |

| Figures in Rand | 2011 | 2010 |
|---|---|---|

**36. 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;

The following were material deviations from the Supply Chain Management policy.

3D Automation Solutions CC, R71,000 per month for IT services
Madirammogo Business Enterprise CC R142,718 per month for providing security and cleaning services at Fleet Africa
Hartung Associates, R28,000 once off for reviewing organisational structure

**37. Awards to family members of persons in service of the state**

| **Supplier** | | |
|---|---|---|
| Ncele Consulting & Projects | 96,698 | - |

Diana Sigcinele Mavuso, Dentist Grade 1 at Gauteng: Health is the wife of the member of Ncele Consulting & Projects

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Statement of comparative and actual information

**2011**

| | Original budget | Adjusted Budget (i.t.o. s28 and s31 of the MFMA) | Final budget | Actual outcome | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | | |
| Electricity | 1,132,000 | 1,132,000 | 1,132,000 | 1,479,765 | (347,765) | 131 % | 131 % |
| Interest received | 1,828,000 | 1,828,000 | 1,828,000 | 735,004 | 1,092,996 | 40 % | 40 % |
| Municipal grants | 45,293,000 | 45,293,000 | 45,293,000 | 45,293,000 | - | 100 % | 100 % |
| Other own revenue | 14,343,000 | 14,343,000 | 14,343,000 | 15,011,797 | (668,797) | 105 % | 105 % |
| **Total revenue (excluding capital transfers and contributions)** | **62,596,000** | **62,596,000** | **62,596,000** | **62,519,566** | **76,434** | **100 %** | **100 %** |
| Employee costs | (13,264,000) | (13,264,000) | (13,264,000) | (17,417,589) | 4,153,589 | 131 % | 131 % |
| Debt impairment | (2,140,000) | (2,140,000) | (2,140,000) | (4,273,484) | 2,133,484 | 200 % | 200 % |
| Depreciation and asset impairment | (1,194,000) | (1,194,000) | (1,194,000) | (1,640,543) | 446,543 | 137 % | 137 % |
| Finance charges | - | - | - | (834,175) | 834,175 | DIV/0 % | DIV/0 % |
| Other expenditure | (45,998,000) | (45,998,000) | (45,998,000) | (40,702,796) | (5,295,204) | 88 % | 88 % |
| **Total expenditure** | **(62,596,000)** | **(62,596,000)** | **(62,596,000)** | **(64,868,587)** | **2,272,587** | **104 %** | **104 %** |
| **Surplus/(Deficit) for the year** | **-** | **-** | **-** | **(2,349,021)** | **2,349,021** | **DIV/0 %** | **DIV/0 %** |