

TEXTON PROPERTY FUND LIMITED

Granted REIT status by the JSE
(Incorporated in the Republic of South Africa)
Registration number: 2005/019302/06
JSE code: TEX
ISIN: ZAE000190542
("Texton" or "the Company")



TEXTON
PROPERTY FUND

PROPOSED INTERNALISATION OF THE MANAGEMENT OF TEXTON

1. Introduction

Further to the announcement released on SENS on 9 March 2017, Texton shareholders ("Shareholders") are advised that Texton has agreed terms with the shareholders of Texton Property Investments Proprietary Limited ("**Texton Property Investments**" or the "**Manager**") to cancel the asset management agreement between Texton and Texton Property Investments ("**Asset Management Agreement**"), cede the rights and delegate the obligations of Texton Property Investments under certain contracts to Texton, and sell certain assets to Texton for a cash consideration of R180 million (excluding VAT, if applicable) ("**Cancellation Consideration**"), less certain amounts that may be owing by Texton Property Investments in respect of the employees of Texton Property Investments to be transferred to Texton as at the date upon which the cancellation, cession, delegation and sale agreement ("**Cancellation, Cession, Delegation and Sale Agreement**") becomes valid and binding according to its terms.

The cancellation of the Asset Management Agreement, cession of the rights and delegation of the obligations of Texton Property Investments in and to the contracts to Texton and sale of the assets to Texton will result in Texton having internalised its management function ("**Manco Internalisation**").

The purpose of this announcement is to provide Shareholders with information relating to the terms of the Manco Internalisation which have been agreed with the shareholders of Texton Property Investments.

2. Circular

Shareholders are further advised that the Manco Internalisation is a related party and a category 2 transaction in terms of the JSE listings requirements ("**Listings Requirements**"). A circular ("**Circular**") detailing the terms of the Manco Internalisation and incorporating a notice convening a general meeting of Shareholders to consider, and if deemed fit, approve the requisite resolutions to implement the Manco Internalisation, will be posted to Shareholders on or about 16 August 2017 (the "**General Meeting**").

3. Rationale

The board of directors of Texton ("**Board**") recognises that the Manco Internalisation will better align the interests of management with that of Shareholders and is in line with global best practice. The Board further recognises that there is potential for increased interest in Texton's shares as international and local investors tend to favour internally managed property funds.

The Manco Internalisation will allow Texton to benefit from economies of scale derived from the direct employment of the Texton Property Investments' employees rather than paying an asset management fee based on enterprise value. The removal of the asset management fee will allow Texton to be more competitive in pricing new acquisitions.

Based on Texton's closing share price on Friday, 14 July 2017 and other relevant valuation assumptions, the Cancellation Consideration equates to approximately a 12.1% discount to the contractual termination value as set out in the Asset Management Agreement.

4. Background of the Manager

Texton Property Investments provides asset management services exclusively to Texton in accordance with the Asset Management Agreement. Day-to-day management and operational functions are performed by the executive management team of Texton, who are employees of Texton Property Investments.

The executive management team of Texton interact regularly with the shareholders of Texton Property Investments through regular meetings and service-level agreements. The roles of Texton Property Investments shareholders, executive management and directors are clearly defined and specific responsibilities and committees including key deliverables and performance criteria are well documented and covered in the Asset Management Agreement.

5. Terms of the Manco Internalisation

5.1 Cancellation, cession, delegation and sale of assets

Texton and Texton Property Investments have entered into a Cancellation, Cession, Delegation and Sale Agreement which results in the following:

- 5.1.1 Texton and Texton Property Investments agreeing to cancel the Asset Management Agreement, to release each other from their respective obligations in terms of the Asset Management Agreement, and to waive any claim that either party has or may have arising out of or in connection with the Asset Management Agreement, save for any sums due but unpaid as at the date upon which the Cancellation, Cession, Delegation and Sale Agreement becomes valid and binding according to its terms;
- 5.1.2 Texton Property Investments ceding all of its rights in certain contracts and delegating all of its obligations in certain contracts to Texton;
- 5.1.3 Texton Property Investments selling certain assets to Texton, in which the ownership, risks and benefits shall pass to Texton; and
- 5.1.4 the employment of each employee of Texton Property Investments will automatically be transferred to Texton and continue in force with Texton as the new employer and Texton shall make an offer of employment to an employee based in the United Kingdom employed by Texton Property Investments UK Limited on the same current terms and conditions, which are no less favourable to the employee, immediately prior to the date upon which the Cancellation, Cession, Delegation and Sale Agreement becomes valid and binding according to its terms.

The aggregate payment by Texton shall not exceed the Cancellation Consideration, which will be settled in cash on the first business day after the fulfilment or waiver, as the case may be, of the last of the conditions precedent set out in paragraph 5.2 below.

5.2 Conditions precedent

The Manco Internalisation will be subject to, *inter alia*, the fulfilment or waiver of the following conditions precedent as set out in the Cancellation, Cession, Delegation and Sale Agreement:

- 5.2.1 written irrevocable undertakings from, or on behalf of, certain Shareholders including Shareholders represented on the Board;
- 5.2.2 the Manco Internalisation being approved by the requisite majority of Shareholders at the General Meeting;
- 5.2.3 a written resolution of the board of directors of Texton Property Investments confirming that the board has determined the fair value of the assets and undertakings of Texton Property Investments to be disposed of and that the Cancellation Consideration constitutes fair consideration;

- 5.2.4 a written special resolution of the shareholders of Texton Property Investments authorising the transactions contemplated in the Cancellation, Cession, Delegation and Sale Agreement;
- 5.2.5 a written special resolution of the shareholders of Texton Holdings (RF) Proprietary Limited ("**Texton Holdings**"), the 100% shareholder of Texton Property Investments, authorising the transactions contemplated in the Cancellation, Cession, Delegation and Sale Agreement;
- 5.2.6 Texton Property Investments has procured that Angelique Norma du Hecquet de Rauville and Handful of Keys Proprietary Limited (registration number: 1997/021534/07), John Alastair Legh, and Mathys Johannes van Heerden and the Nooitgedacht Familie Trust No.1 (IT number: 6731/2002), have each entered into the relevant waiver and confidentiality agreement annexed to the Cancellation, Cession, Delegation and Sale Agreement;
- 5.2.7 written confirmation from each counter-party to each of the contracts to be assigned to Texton (other than Texton Property Investments) providing its full, final and irrevocable consent to the cession of Texton Property Investments' rights and delegation of Texton Property Investments' obligations under the contracts to Texton on the terms and conditions set out in the Cancellation, Cession, Delegation and Sale Agreement;
- 5.2.8 Texton Holdings obtaining either an independent expert report as to the fairness and reasonableness of the transactions contemplated in the Cancellation, Cession, Delegation and Sale Agreement, or a ruling from the Takeover Regulation Panel exempting the board of Texton Holdings from obtaining an independent expert report; and
- 5.2.9 all regulatory approvals and/or consents as may be necessary to give effect to the Manco Internalisation have been obtained (either unconditionally or subject to conditions acceptable to the parties against whom such conditions will be enforceable), including, without limitation, the JSE Limited, Takeover Regulations Panel and/or the South African Competition Authorities.

6. Related party transaction

The Manco Internalisation is classified as a related party transaction in terms of the Listings Requirements, given that Texton Property Investments is the asset manager of Texton, and accordingly requires Shareholder approval.

The shareholders of Texton Holdings are set out in the table below:

Texton Holdings shareholder	% shareholding
Investec Bank Limited	25.00%
Handful of Keys Proprietary Limited (a 1.58% shareholder in Texton)	25.00%
John Alastair Legh (a non-executive director and 2.53% shareholder in Texton)	18.75%
Nooitgedacht Familie Trust No. 1 (of which Mathys Johannes van Heerden, a non-executive director of Texton, is a trustee and beneficiary. Nooitgedacht Familie Trust No. 1 is a 4.18% shareholder in Texton)	18.75%
N&G Trust (a 0.21% shareholder in Texton)	12.50%

7. Fairness opinion

Questco Proprietary Limited has been appointed as the independent expert to the independent sub-committee of the Board, in relation to the Manco Internalisation to advise on whether, in its opinion, the Cancellation Consideration is fair, as well as reasonable. The fairness opinion will be included in the circular issued to Shareholders in respect of the Manco Internalisation.

8. Indicative pro forma financial effects

The indicative pro forma financial effect of the Manco Internalisation is a 2.3% dilution to Texton's distribution per share from 47.95 cents to 46.83 cents for the 6 months ended 31 December 2016. The calculation of the above indicative pro forma financial effect has not been reviewed by the independent reporting accountants.

Further information regarding the pro forma financial effects of the Manco Internalisation will be included in the Circular.

Hyde Park
21 July 2017

Sponsor
Investec Bank Limited

Legal advisor and competition law advisor
Norton Rose Fulbright South Africa Inc

Independent expert
Questco Proprietary Limited

Independent reporting accountants
KPMG Inc