

TEXTON PROPERTY FUND LIMITED

(formerly Vunani Property Investment 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

(formerly ISIN: ZAE000185872)

("Texton" or "the Company")



TEXTON
PROPERTY FUND

ANNOUNCEMENT OF A BLACK ECONOMIC EMPOWERMENT ("BEE") TRANSACTION

1. INTRODUCTION

Further to its stated intention in various shareholder correspondence, including the Texton SENS announcement on 5 May 2014, Texton is pleased to announce that it has reached agreement ("**Subscription and Relationship Agreement**") with a broad-based black economic empowerment ("**BEE**") consortium ("**BEE Consortium**") led by Zava African Capital Proprietary Limited ("**Zava**") to implement a significant and strategic BEE transaction, through the subscription for, and issue of new ordinary Texton shares ("**Shares**") to the BEE Consortium for cash of R443,504,685 (or such lower amount that would equate to the BEE Consortium holding not more than 20% of Texton's issued share capital following the subscription) ("**Aggregate Subscription**"), at an issue price per Share equivalent to the 30-day volume weighted average price ("**VWAP**") calculated as at the date of subscription ("**Proposed BEE Transaction**"). The Proposed BEE Transaction is subject to the necessary approval of the shareholders of Texton.

The Proposed BEE Transaction when taken together with the transaction announced on SENS on 5 May 2014, which resulted in the issue of Texton shares to PDNA Property Investments Proprietary Limited ("**PDNA**"), will result in an aggregate BEE shareholding in Texton of approximately 25% on the date of subscription. Texton anticipates achieving a Level 2, or at worst, a Level 3 BEE rating as a result of the Proposed BEE Transaction.

2. RATIONALE FOR THE PROPOSED BEE TRANSACTION

The management and board of Texton are committed to the transformation and empowerment objectives of South Africa and have expended considerable effort in addressing Texton's objective of having meaningful, sustainable and commercially driven BEE shareholding at the Texton (listed company) level. The Proposed BEE Transaction will result in approximately 25% of Texton's shares being in black hands at issue date which fulfils Texton's stated strategy to have meaningful black ownership.

The Proposed BEE Transaction:

- Will, together with the PDNA transaction announced on 5 May 2014, place approximately 25% of the Company's issued share capital under black ownership;

- Will achieve compliance with the objectives contained in section 2 of the Broad-Based Black Economic Empowerment Act 53 of 2003 as they relate to the Property Sector (“**Property Charter**”) and the guidelines issued by the South African Government’s (“**Government**”) Department of Public Works (“**DPW**”), which guidelines have been submitted for gazetting as a sector code;
- Is a business imperative as Government is Texton’s single largest tenant, occupying 20.5% of Texton’s total gross lettable area and hence will provide a competitive advantage to Texton in the implementation of its organic and acquisition growth strategies;
- Will improve Texton’s overall gearing capacity and put Texton in a strong position to utilise undrawn facilities and own cash in order to take advantage of future opportunities that are consistent with Texton’s intention to grow the portfolio by the acquisition of high quality properties including those set out in paragraph 6 below; and
- Will promote Texton’s contribution to transformation in the property sector and enhance Texton’s growth in the sector.

3. BEE PARTNERS

Texton undertook a vigorous process to consider and evaluate potential BEE partner(s) based on various criteria and the Company’s empowerment objectives which included *inter alia*:

- Ensure maximum compliance, to the extent possible, with the revised DTI Codes (published on 11 October 2013), the Property Charter, and the DPW Guidelines regarding BEE ownership
- Provide for the inclusion of broad based BEE participants and new entrants as defined in the revised DTI Codes
- Provide for commercial and strategic compatibility of the BEE partner(s) with Texton through *inter alia*:
 - Existing networks and alliances within the property sector;
 - Ability to assist Texton with its broader transformation initiatives;
 - Good commercial acumen and track record; and
 - Ability to add-value to Texton’s organic and acquisitive growth strategy and, to the extent required, provide commercial and operating assistance to Texton.

Pursuant to the above the BEE Consortium offers an important balance between strategic, black-women and broad-based empowerment partners which is aligned with Texton’s BEE objectives. An overview of the BEE partners is set out below:

3.1. Zava African Capital Proprietary Limited (“Zava”)

Holds 60% of BEE Consortium’s share capital.

Zava is a successful black owned, managed and controlled diversified investment company which subscribes fully to the principles and spirit of BEE. Zava have prided itself on formulating strategic relationships that embrace the need for a sustainable social and economic transformation in South Africa. Zava has extensive skills and experience in public sector investment and will seek to introduce Texton to their large networks and strong relationships. Zava will be a powerful addition to the Texton team as they will seek to further grow Texton’s business and will be key to implementing Texton’s BEE strategy. Zava’s founders and shareholders are Romeo Makhubela and Patrick Ntshalintshali both of whom have extensive experience in asset management.

3.2. Jade Capital Partners Proprietary Limited (“Jade”)

Holds 30% of BEE Consortium’s share capital.

Jade is a 100% black women owned, managed and controlled investment holding company which was founded by Bukelwa Bulu and Zola Ntwasa. Jade’s primary focus is investment in the property sector, including direct property investments as well as investments in property services companies. Both Bukelwa and Zola have extensive experience in investment banking, corporate governance and property finance. Jade have the experience and credentials to advance Texton’s BEE objectives and provide value-add in seeking investment opportunities as a result of both Bukelwa and Zola’s industry knowledge and deal making ability.

3.3. Ditikeni Investment Company Limited (“Ditikeni”)

Holds 10% of BEE Consortium’s share capital

Ditikeni is an investment holding group that makes long-term investments as a broad-based BEE entity. Ditikeni currently has eighteen shareholders, all of which are non-profit organisations serving black communities at a grassroots level. The work done by these non-profit organisations impacts directly and indirectly on the lives of over 2 million of South Africa’s poorest and most marginalised citizens, making Ditikeni a 100% broad-based empowerment company.

The BEE Consortium has secured funding equivalent to the Aggregate Subscription from the Public Investment Corporation (SOC) Limited (in its capacity as agent and representative of the Government Employees Pension Fund) (“PIC”).

4. SALIENT TERMS OF THE PROPOSED BEE TRANSACTION

Salient terms of the Proposed BEE Transaction are as follows:

- The issue of Shares by Texton to the newly formed BEE Consortium to the value of R443,504,685 or such lower amount that would equate to the BEE Consortium holding not more than 20% of the issued share capital of Texton post the issue of Shares;
- The PIC will fund the Aggregate Subscription to enable the BEE Consortium to subscribe for the Shares;
- The Shares issued to the BEE Consortium will be issued at the 30 day VWAP as at the date of subscription of the Shares. No discount is applicable;
- The BEE Consortium and the respective BEE partners will be prohibited from selling their Shares in Texton or their shares in the BEE Consortium for a period of 6 years from date of subscription;
- The Shares, once issued to the BEE Consortium, will rank *pari passu* in all respects and the BEE Consortium will have the same voting rights as any other Texton shareholder;
- As a result of the subscription, the BEE Consortium will be entitled to nominate (for subsequent appointment at a meeting of Texton shareholders) a director to the Texton board. Such director will also become a member of the Texton investment committee, a sub-committee of the Texton board; and
- The PIC’s funding will be secured (in order of recourse) by *inter alia*:
 - i. Cash sweep of all Texton distributions paid to the BEE Consortium;

- ii. Various financial covenants which if breached, the BEE Consortium will be called upon to remedy;
- iii. The Texton Shares held by the BEE Consortium (or part thereof);
- iv. The shares in the BEE Consortium;
- v. A Put Option to Texton to the extent of any residual principal plus accrued interest in the event that a breach of the covenant is not already rectified following (i) to (iv) above; and
- vi. Individual suretyships from the BEE partners.

The Subscription and Relationship Agreement includes warranties, undertakings, guarantees and breach clauses usual for a transaction of this nature.

The covenants set out in the PIC funding agreements are as follows:

- Interest cover by the BEE Consortium of 0.75x;
- Minimum share cover of 0.75x in year 1; 0.85x in year 2; 1.0x in year 3; 1.1x in year 4; 1.25x in years 5 and 6;
- Interest cover by Texton of 2.0x
- Maximum loan to value for Texton of 45%; and
- Non-payment of distributions by Texton.

5. CONDITIONS PRECEDENT

The Proposed BEE Transaction is conditional on the fulfilment of the following conditions precedent:

- Texton board approval;
- Texton Property Investments Proprietary Limited (“TPI”) board approval
- the PIC Funding Agreement, the Operating Agreements, and the PUT Option agreement becoming unconditional in all respects;
- the approval by the JSE of the Proposed BEE Transaction and the documentation to be distributed to shareholders in respect of the Proposed BEE Transaction in terms of the JSE Listings Requirements; and
- the requisite approval by the Texton shareholders of all the necessary special and ordinary resolutions tabled at the general meeting of Texton shareholders convened for the purpose of the Proposed BEE Transaction.

6. USE OF PROCEEDS

According to the JSE Listings Requirements no *pro forma* financial effects are required for an issue of shares for cash as envisaged under the Proposed BEE Transaction.

The Aggregate Subscription will be used to reduce Texton’s short-term debt obligations thereby improving Texton’s overall gearing capacity. This will put Texton in a strong position to utilise undrawn facilities and own cash in order to take advantage of imminent opportunities that are consistent with Texton’s disciplined acquisitive growth strategy.

Texton is in advanced exclusive discussions and in some instances due diligence to acquire various properties from non-related parties with an aggregate acquisition value of over R500 million (“**Acquisition Opportunities**”). The timing of transfer of the majority of these Acquisition

Opportunities is expected to coincide as much as possible with the issue of Shares to the BEE Consortium in order to avoid any yield dilution.

Each of the Acquisition Opportunities meets Texton's investment strategy and will complement Texton's objectives to build a quality property portfolio that offers long-term distribution and capital growth underpinned by strong underlying cash flows.

7. BEE MANCO

As part of a further empowerment initiative, the BEE partners, and PDNA (as "**Operating Partners**"), will enter into respective operational agreements ("**Operating Agreements**") with the Texton management company, TPI, whereby the Operating Partners will work closely with TPI in certain operational and asset management matters. Remuneration of the Operating Partners will be the responsibility of TPI.

The Operating Agreements will ensure significant property skills transfer. TPI shall remain fully responsible to Texton for the performance of all obligations under its asset management agreement with Texton.

8. OPINIONS AND RECOMMENDATIONS

The Texton board has considered the terms and conditions of the Proposed BEE Transaction and is of the opinion that Proposed BEE Transaction is in the best interests of all of Texton's key stakeholders and shareholders and, accordingly, recommends that the Texton shareholders vote in favour of the resolutions required to implement the Proposed BEE Transaction.

9. EFFECTIVE DATE AND CIRCULAR TO TEXTON SHAREHOLDERS

The effective date of the Proposed BEE Transaction is expected to be during March 2015, which is the expected date of shareholder approval. A circular, incorporating a notice of general meeting and the relevant resolutions, will be distributed to shareholders in February 2015.

Dunkeld West
12 December 2014

Investment Bank and Sponsor
Investec Bank Limited

Legal Adviser
Cliffe Dekker Hofmeyr Inc.