
TEXTON PROPERTY FUND LIMITED
Incorporated in the Republic of South Africa
(Registration number 2005/019302/06)
Share code: TEX ISIN: ZAE000190542
Approved as a REIT by the JSE
(“Texton” or “the Company”)

REPURCHASE OF BEE SHARES, POSTING OF CIRCULAR AND NOTICE OF GENERAL MEETING

1. INTRODUCTION

Further to the circular to Texton shareholders dated 18 February 2015 regarding the transaction entered into between Texton and Texton Broad-based Empowerment (RF) Proprietary Limited (“**BEE SPV**”) (“**BEE Transaction**”), in terms of which BEE SPV subscribed for a number of Texton shares (further increased by BEE SPV’s participation in Texton’s 2015 rights offer) (together, the “**BEE Shares**”), it was announced on SENS on 23 August 2018 that Texton had received communication from the Public Investment Corporation SOC Limited (“**PIC**”) relating to the funding granted by the PIC to BEE SPV (“**the PIC Loan**”) and the put option which was granted by Texton to the PIC (“**PIC Put Option**”) as security for the obligations of BEE SPV under the loan agreements between the PIC and BEE SPV (“**PIC Loan Agreements**”). The PIC notified Texton that a default event had occurred, which was a failure by BEE SPV to maintain the minimum share cover ratio in accordance with the provisions of the PIC Loan Agreements (“**Default Event**”). Failing remedy of the Default Event by BEE SPV, the PIC intended exercising its rights under the agreement entered into between Texton and the PIC, in terms of which the PIC Put Option is governed (“**PIC Put Option Agreement**”).

On 13 September 2018, shareholders were advised that BEE SPV had provided communication to the PIC that it was unable to remedy the Default Event. The PIC indicated that, given the current share price trading levels and the illiquidity in the trading volumes of Texton shares, a sale of the 51 858 876 BEE Shares as contemplated in the PIC Put Option Agreement, would not restore the covenant or remedy the Default Event. Accordingly, the PIC notified Texton of the exercise of the PIC Put Option and that Texton was required to purchase or procure the purchase of the BEE Shares on the terms set out in the PIC Put Option Agreement (“**Repurchase**”).

As required in terms of section 48(2)(a) of the Companies Act, 2008 (Act 71 of 2008), as amended (“**Companies Act**”), the Board of Directors of Texton (“**Board**”) has accordingly resolved to acquire the BEE Shares from either BEE SPV or the PIC, whichever is the beneficial owner of the BEE Shares at the time the Repurchase is implemented, for an amount equal to the total of the capital sums advanced and accrued interest on the PIC Loan, excluding any costs, fees, profit share or other amounts payable in terms thereof and less all payments made in reduction thereof from time to time (“**PIC Loan Balance**”) as at the date of payment of such consideration (“**Repurchase Consideration**”). In terms of the PIC Put Option Agreement, the Companies Act and the Listings Requirements of JSE Limited (“**Listings Requirements**”), the implementation of the acquisition of the BEE Shares by Texton, and the Board’s resolution to acquire such shares, remains subject to:

- approval of the Board’s decision by a special resolution of Texton shareholders entitled to exercise voting rights on the matter passed in terms of section 48(8) read with sections 114 and 115 of the Companies Act (“**Companies Act Special Resolution**”);
- approval of the Repurchase by a special resolution of Texton shareholders entitled to exercise votes on the matter, in terms of paragraph 5.69 of the Listings Requirements (“**JSE Special Resolution**”); and
- the Board resolving that it has applied the solvency and liquidity test set out in section 4(1) of the Companies Act (“**the Solvency and Liquidity Test**”) and reasonably concluding that the Company will satisfy the Solvency and Liquidity test immediately after completing the Repurchase.

Shareholders are hereby advised that a circular (“**Circular**”) providing them with the relevant information regarding the Repurchase and incorporating, *inter alia*, a notice convening a meeting of the shareholders (“**general meeting**”) in order for shareholders to consider and, if deemed fit, to pass, with or without modification, the resolutions necessary to approve and implement the Repurchase in terms of both the

Listings Requirements and the Companies Act was posted to shareholders today, 27 November 2018. The circular is also available on the Texton website (<http://www.texton.co.za/company-information/CIRCULAR>).

2. BACKGROUND AND RATIONALE

In order to meet the Company's transformation and empowerment objectives, Texton entered into the BEE Transaction in December 2014. The BEE Transaction aimed to provide a competitive advantage to Texton in the execution of its stated strategy, which included leveraging Texton's BEE status to retain and attract government and national tenants. At the time of the BEE Transaction, the South African government was Texton's single largest tenant, occupying approximately 20% of Texton's total gross lettable area. This has been significantly reduced over time.

The BEE Transaction was structured such that BEE SPV subscribed for Texton Shares using funding from the PIC. The PIC subsequently funded the price payable by BEE SPV for Texton Shares subscribed for by BEE SPV pursuant to the rights offer undertaken by Texton in October 2015 ("**Rights Offer**"). Following the Rights Offer, BEE SPV holds a total of 51 858 876 Texton shares.

In terms of the PIC Put Option Agreement, in the event of a Default Event, the PIC is obliged to first place BEE SPV in breach and to give BEE SPV 15 business days to remedy such breach. Should the breach remain unremedied, then, with Texton's approval, which may not unreasonably be delayed or withheld, the PIC shall exercise its rights in terms of the cession and pledge of Texton shares granted to it by BEE SPV and the PIC shall procure the sale of sufficient of the BEE Shares to remedy the Default Event. If the Default Event is not remedied, then the PIC may exercise the PIC Put Option. In terms of the PIC Put Option Agreement, settlement of the purchase price for the BEE Shares is due within 90 days of receipt of the exercise notice, subject to compliance with the requirements of the Companies Act and the Listings Requirements and any other statutory and/or other regulatory requirements.

In terms of the PIC Put Option Agreement, the Repurchase Consideration payable for the BEE Shares pursuant to the Repurchase is not referenced off the market price per Texton share, but rather is contractually to be determined as an amount equal to the PIC Loan Balance as at the date of payment of such consideration.

As at 20 November 2018 ("**last practicable date**"), the Repurchase Consideration would be an amount of R668 719 409, equating to a Repurchase Consideration of circa R12.90 per Texton share. The market price of Texton shares on the JSE as at the last practicable date was R4.10 and the consideration payable for the BEE Shares pursuant to the Repurchase, as at the last practicable date, accordingly represents a premium of *circa* 215% to the market price of Texton shares.

The BEE Shares represent 13.79% of Texton's issued ordinary share capital. It is not clear to Texton which of BEE SPV or the PIC will be the beneficial owner of the BEE Shares at the time the Repurchase is implemented.

3. SOLVENCY AND LIQUIDITY

In terms of section 4 of the Companies Act, a company satisfies the Solvency and Liquidity Test at a particular time if, considering all reasonably foreseeable financial circumstances of the company at that time:

- the assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued; and
- it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of, in the case of the acquisition of the company of any of its shares, 12 months following that acquisition.

Furthermore, in terms of paragraph 5.69 of the Listings Requirements, the Repurchase is subject to, *inter alia*, the following:

- 3.1 the inclusion in the Circular of a statement by the Board that, after considering the effect of the Repurchase, the provisions of section 4 and section 48 of the Companies Act have been complied with and that:

- 3.1.1 the Company and its subsidiaries (collectively, “the Group”) will be able in the ordinary course of business to pay their debts for a period of 12 months after the date of approval of the Circular;
 - 3.1.2 the assets of the Company and the Group will be in excess of the liabilities of the Company for a period of 12 months after the date of approval of the Circular;
 - 3.1.3 the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of the Circular; and
 - 3.1.4 the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of the Circular; and
- 3.2 a resolution by the Board that it has authorised the Repurchase, that the Company and its subsidiaries have passed the Solvency and Liquidity Test and that, since the test was performed, there have been no material changes to the financial position of any company of the Group.

The Board has reasonably concluded that after considering all reasonably foreseeable financial circumstances of the Company, it is not in a position to make a positive statement that it will satisfy the Solvency and Liquidity Test immediately after completing the Repurchase and is therefore not in a position to comply with paragraphs 3.1 and 3.2 above.

This is not a general assessment of Texton’s solvency and liquidity, but an assessment of solvency and liquidity in the context of the Company’s obligations in terms of the Repurchase only.

The JSE has granted the Company dispensation from compliance with paragraphs 3.1 and 3.2 above, provided the Company meets the Solvency and Liquidity Test within a period of six months from the date of the general meeting, failing which the JSE Special Resolution (if passed by the requisite majority of shareholders) will lapse.

4. JSE AND COMPANIES ACT REQUIREMENTS FOR THE REPURCHASE

As per its obligations in terms of the PIC Put Option Agreement and as required in terms of section 48(2)(a) of the Companies Act, the Board has determined by resolution that, subject to shareholders approving both the Companies Act Special Resolution and the JSE Special Resolution and further the Board determining and resolving that the Company will satisfy the Solvency and Liquidity Test immediately after completing the Repurchase, that the Company acquire the BEE Shares for the Repurchase Consideration.

In terms of section 48(8)(b) of the Companies Act, as the BEE Shares represent more than 5% of the issued ordinary share capital of Texton, the decision of the Board to acquire the BEE Shares in terms of the Repurchase is subject to the requirements of sections 114 and 115 of the Companies Act which provide, *inter alia*, that the decision must be approved by a special resolution adopted by persons entitled to exercise voting rights on the matter. In accordance with section 115(4) of the Companies Act, the votes of the PIC, BEE SPV, any person related to PIC or BEE SPV, or any person acting in concert with either such party (as defined in the Companies Act) will be excluded both for purposes of determining the number of votes in support of the Companies Act Special Resolution and for purposes of determining the requisite quorum in respect thereof.

Texton is also required to obtain a report from an independent expert in terms of the provisions of section 114(3) (as read with section 48(8)(b) and section 115) of the Companies Act.

In terms of the Listings Requirements, the Repurchase requires the approval of Texton shareholders by a special resolution achieving a 75% majority of the votes cast in favour thereof by all shareholders present or represented by proxy at the general meeting, excluding participants in the Repurchase and their associates. Accordingly, in terms of paragraph 5.69(b) of the Listings Requirements, the votes of the PIC, BEE SPV and the associates of the beneficial owner of the BEE Shares will be excluded in determining the number of votes in support of the JSE Special Resolution. The presence of the PIC, BEE SPV and the associates of the beneficial owner of the BEE Shares will, however, form part of the quorum for purposes of considering the JSE Special Resolution.

As the PIC is a material shareholder of the Company following the exercise of its pledge over the BEE Shares held by BEE SPV, it is considered to be a ‘Related Party’ in terms of paragraphs 10.1(b)(i) of the Listings Requirements. Given that the price at which the BEE Shares are to be purchased is at a premium to the weighted average traded price of such equity securities measured over the 30 business days prior

to the PIC's exercising of the PIC Put Option, Texton is accordingly required to obtain an opinion on the Repurchase by an independent expert acceptable to the JSE.

On the basis of the above, the Board has convened the general meeting for shareholders to consider, and if deemed fit, pass the Companies Act Special Resolution and JSE Special Resolution.

In terms of section 46 of the Companies Act, Texton may not implement the Repurchase unless the Board, by resolution, has acknowledged that it has applied the Solvency and Liquidity Test and reasonably concluded that the Company will satisfy the test immediately after completing the Repurchase. In addition, unless the Board is able to resolve that the Company satisfies the Solvency and Liquidity Test by 28 June 2019 (being six months from the date of the general meeting), the JSE Special Resolution (if passed by the requisite majority of shareholders) will lapse. Should the JSE Special Resolution be passed by the requisite majority of shareholders at the general meeting and the Board, within the six month period to 28 June 2019, resolves that it has applied the Solvency and Liquidity Test and reasonably concluded that the Company will satisfy the Solvency and Liquidity Test immediately after completing the Repurchase, then shareholders will be advised by way of an announcement on SENS and the Company will proceed to implement the Repurchase.

5. INFORMATION PERTAINING TO THE REPURCHASE

5.1 Impact of the Repurchase on the financial information of Texton

In the event that shareholders approve the Repurchase and assuming that Texton's facilities are withdrawn by the banks to whom Texton is indebted in terms of its loan facilities, being Standard Bank, Santander, HSBC and Investec ("**Banks**") and/or the Company is unable to raise the funding required to settle the Repurchase Consideration in the six month period from the date of the general meeting, the impact of the Repurchase on the financial information of Texton for the last financial year will be as follows:

- a decrease in investment property of R1 389 million;
- a decrease in cash of R5 million;
- a decrease in retained earnings of R133 million;
- a decrease in other financial liabilities of R591 million;
- a decrease in the PIC Put Option liability of R668 million;
- an increase in the total comprehensive loss for the year of R220 million; and
- a decrease in Texton's issued shares by 51 858 876 shares.

Assumptions:

- Transaction costs of R5 million are settled out of cash and are considered non-distributable.
- The PIC Put Option liability is settled through the sale of properties at between 80% and 90% of their book value as at year end.
- The Banks will accept the settlement of the PIC Put Option liability through the sale of properties and will not call their funding.
- The sale of properties is effective 1 July 2017 and associated net property income ceases from such date.

The above impact on the financial information of Texton has not been reported on by the Company's auditors.

5.2 Source of funds

The Repurchase could only be funded by Texton from internal resources and then only provided the Repurchase would not result in the Company failing to satisfy the Solvency and Liquidity Test. Texton does not have sufficient available facilities to settle the PIC Put Option liability in the event that shareholders approve the Repurchase and funds would need to be raised through the disposal of properties as more fully dealt with in the Circular.

5.3 Consequences of various scenarios

The Board's opinion as to the consequences of the Companies Act Special Resolution and JSE Special Resolution being approved or not being approved by the requisite majority of Texton shareholders at the general meeting are set out in the Circular.

6. IMPORTANT DATES AND TIMES

The important dates and times relating to the Repurchase (“**Timetable**”) are set out below. Words and expressions in the Timetable and the notes thereto shall have the same meanings as assigned to them in the Circular.

2018/2019

Record date to determine which Texton shareholders are entitled to receive the Circular	Friday, 16 November
Circular posted to Texton shareholders and notice convening the general meeting announced on SENS on	Tuesday, 27 November
Last day to trade Texton shares in order to be recorded in the Register to vote at the general meeting	Tuesday, 18 December
Record date to be eligible to vote at the general meeting	Friday, 21 December
Last day to lodge forms of proxy for the general meeting by 10:00 on	Monday, 24 December
Last day for shareholders objecting to the Companies Act Special Resolution to notify Texton of their objection in terms of section 164(3) of the Companies Act by 10:00	Friday, 28 December
General meeting to be held at 10:00 on	Friday, 28 December
Results of general meeting released on SENS on	Friday, 28 December
Results of general meeting published in the press on	Monday, 31 December
If the Companies Act Special Resolution is approved in terms of section 115 of the Companies Act by shareholders at the general meeting, but with 15% or more votes in opposition, the last day on which shareholders who voted against such resolution can require the Company to seek court approval in terms of section 115(3)(a) of the Companies Act	Monday, 7 January
Last day for shareholders who voted against the Companies Act Special Resolution to apply for leave to apply to court for a review of the Board's decision to acquire the BEE Shares in terms of section 115(3)(b) of the Companies Act	Monday, 14 January
Last day for Texton to send notice of approval of the Companies Act Special Resolution to shareholders who qualify to receive such notice in terms of section 164(4) of the Companies Act (if any)	Monday, 14 January
Last day for shareholders to deliver written notice in terms of section 164(7) of the Companies Act demanding that Texton pay the shareholder the fair value for all the Texton shares held by that shareholder ⁵	Monday, 28 January

Notes:

1. The above dates and times are subject to amendment. Any such amendment will be released on SENS and in the press.
2. All times given are local times in South Africa.
3. Additional copies of the Circular in its printed format may be obtained from the Sponsor at the address set out in the “Corporate information” section of the Circular during normal business hours from Tuesday, 27 November 2018 to Friday, 28 December 2018.
4. Any form of proxy not delivered to the transfer secretaries by Monday, 24 December 2018 may be handed to the chairperson of the general meeting immediately before the appointed proxy exercises any of the shareholder's votes at the general meeting.

5. This date applies to shareholders who object to the Repurchase in terms of section 164(3) of the Companies Act before the commencement of the general meeting and thereby qualify to receive notice of the approval of the Repurchase in terms of section 164(4) of the Companies Act and who actually receive notice on the date of the general meeting. The date applicable to any specific shareholder should be determined in accordance with section 164(7) of the Companies Act.
6. Notwithstanding a vote in favour of the Companies Act Special Resolution and JSE Special Resolution, and any ensuing processes undertaken in terms of section 115 of the Companies Act, the Repurchase remains subject to, and cannot and will not be implemented without the Board resolving within a period of six months from the date of the general meeting that it has applied the Solvency and Liquidity Test and has reasonably concluded that the Company will satisfy the Solvency and Liquidity Test immediately after completing the Repurchase.

7. OPINION OF THE INDEPENDENT EXPERT

In accordance with the the provisions of section 114(3) (as read with section 48(8)(b) and section 115) of the Companies Act), and paragraph 5.69(e) of the Listings Requirements, the Company has appointed Nodus Capital TS Proprietary Limited as the Independent Expert (“**Independent Expert**”) to provide the Board with its opinion as to whether the terms and conditions of the Repurchase are fair and reasonable to shareholders. Taking into consideration the terms and conditions of the Repurchase, the Independent Expert is of the opinion that the Repurchase is not fair and not reasonable to shareholders.

The Independent Expert’s report is included in the Circular.

8. DIRECTORS’ OPINIONS

8.1 View of the Independent Board

The Board has convened an independent board (“**Independent Board**”) as required by the Companies Regulations, 2011, which comprises JR Macey, A Hannington and S Thomas, for purposes of evaluating and advising shareholders whether the terms and conditions of the Repurchase are fair and reasonable to shareholders.

Having regard to the report of the Independent Expert, the Independent Board is of the opinion that the terms and conditions of the Repurchase are not fair and not reasonable to Shareholders.

8.2 View of the Board

Having regard to the report of the Independent Expert, the Board is of the opinion that the terms and conditions of the Repurchase are not fair and not reasonable to Shareholders.

9. NOTICE OF GENERAL MEETING

Notice is hereby given that a general meeting of shareholders will be held at 10:00 on Friday, 28 December 2018 at the registered office of Texton, Block C, Investment Place, 10th Road, Hyde Park, 2196, to consider, and, if deemed fit, to pass, with or without modification, the special and ordinary resolutions set out in the notice of general meeting, which is contained in the Circular.

The Board has determined that, in terms of section 62(3)(a), as read with section 59 of the Companies Act, the record date for the purposes of determining which shareholders of the Company are entitled to participate in and vote at the general meeting is Friday, 21 December 2018. Accordingly, the last day to trade in Texton shares in order to be recorded in the Company’s securities register to be entitled to vote will be Tuesday, 18 December 2018.

Johannesburg
27 November 2018

Sponsor and Joint Corporate Adviser
Merchantec Capital

Joint Corporate Adviser
Tenurey BSM Proprietary Limited

Joint Corporate Adviser

Java Capital Proprietary Limited

Legal Adviser

Glyn Marais Inc

Independent Expert

Nodus Capital TS Proprietary Limited