# TEXTON

PROPERTY FUND

## ABRIDGED AUDITED SUMMARISED CONSOLIDATED FINANCIAL RESULTS

for the year ended
30 JUNE **2020**

# KEY METRICS

**PORTFOLIO VALUE***

R4,475 billion 1,7%

(June 2019: R4,400 billion)

**LTV RATIO**

46,2% (1,0)

(June 2019: 47,2%)#

**NET ASSET VALUE**

584,27 cents per share (4,8%)

(June 2019: 614,05 cents per share)

**PORTFOLIO BY GROSS LETTABLE AREA ("GLA")***

364 356m$^2$ (3,1%)

(53 PROPERTIES)

(June 2019: 376 054m² (55 properties))

**PORTFOLIO VACANCIES***

11,0% (1,8%)

(June 2019: 9,2%)

**NATIONAL/LISTED/BLUE CHIP TENANTS BY GLA***

54,1% (22,4%)

(June 2019: 69,7%)

**INVESTMENT PROPERTY INCOME**

R521,9 million (6,5%)

(June 2019: R558,0 million)

**NET PROPERTY INCOME**

R307,8 million (15,4%)

(June 2019: R363,7 million)

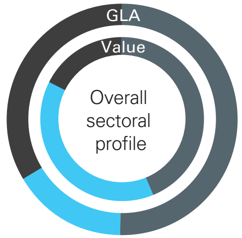
**INTEREST COVER RATIO**

2,8 times (26,32%)

(June 2019: 3,8 times)

* *Including Texton's 50% share of Broad Street Mall.*
\# *Restated 2019 according to REIT Best Practice Recommendations ("BPR") 2019 second addition guidelines.*

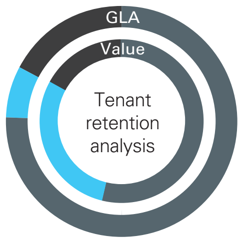




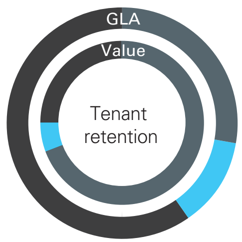

| Sector | GLA m² | GLA % | Value R'million | Value % |
|---|---|---|---|---|
| Office | 183 437 | 50,4 | 1 960 | 43,8 |
| Retail | 58 952 | 16,2 | 1 738 | 38,8 |
| Industrial | 121 967 | 33,4 | 777 | 17,4 |
| | **364 356** | **100,0** | **4 475** | **100,0** |


| New deals* | GLA m² | GLA % | No of tenants | No of tenants % |
|---|---|---|---|---|
| Office | 3 082 | 27,8 | 25 | 69,4 |
| Retail | 1 414 | 12,7 | 2 | 5,6 |
| Industrial | 6 608 | 59,5 | 9 | 25,0 |
| | **11 104** | **100,0** | **36** | **100,0** |

*New deals were only concluded in South Africa for the current period. The wholly-owned UK portfolio was fully let during the period.*




| Renewals* | GLA m² | GLA % | No of tenants | No of tenants % |
|---|---|---|---|---|
| Office | 46 839 | 74,9 | 29 | 53,7 |
| Retail | 4 471 | 7,1 | 16 | 29,6 |
| Industrial | 11 228 | 18,0 | 9 | 16,7 |
| | **62 538** | **100,0** | **54** | **100,0** |




| Tenant retention* | GLA expired m² | GLA retained % | No of tenants retained | GLA retention % |
|---|---|---|---|---|
| Office | 47 630 | 46 839 | 29 | 98,3 |
| Retail | 6 193 | 4 471 | 16 | 72,2 |
| Industrial | 15 250 | 11 228 | 9 | 73,6 |
| | **69 073** | **62 538** | **54** | **90,5** |

* *The tables and graphs above show the sector profile and leasing activity for Texton's wholly-owned portfolio situated in South Africa ("SA") and the United Kingdom ("UK").*

# COMMENTARY

## ABOUT TEXTON

Texton Property Fund Limited ("Texton" or "the company" or "the fund" or "the group") is a Real Estate Investment Trust ("REIT") listed on the JSE Limited. The company internally manages its R4,5 billion portfolio of retail, office and industrial property assets located in SA and the UK.

## PERFORMANCE FOR THE YEAR

### South Africa

- The macro-economic environment remains challenging with further declines in the economy expected due to measures enacted by the government to manage the 2019 coronavirus disease ("COVID-19") pandemic
- Vacancy of 12,7% (2% increase) due to poor market conditions experienced in 2020
- Letting performance remained strong, with 90% of expiring GLA being re-let
- Nine properties were sold, with transfers delayed due to closures of deeds offices, the inability to obtain municipal clearances and a poorly functioning debt market
- Collection rate of 90% during the COVID-19 lockdown period (April to June), improving to 93% after year-end.

### United Kingdom

- UK economy contracted by a record 20,4% in the second quarter of the 2020 calendar year, following a 2,2% contraction in the previous quarter, as a result of the COVID-19 pandemic
- Collection rate of 97% on wholly-owned properties during the COVID-19 pandemic
- Sale of Tesco Chobe completed in July 2019 resulting in the continued repositioning of the property portfolio continuing towards industrial and logistic properties
- Wholly-owned property portfolio is 100% let with a weighted average lease expiry ("WALE") of 9,23 years.

### Broad Street Mall joint venture[1]

- Refinanced debt in the joint venture
- Four major asset management initiatives:
  - New cinema and entertainment venue
  - New serviced office and co-working centre
  - New food hall
  - Extended the lease of the main anchor tenant TK Maxx
- Transformation project underway to reposition the Broad Street Mall as a diversified mixed-use property in Reading, a top 20 town in the UK
  - Hotel development expected to start on site during Q2 FY2021
  - Residential planning consent achieved for the development of 422 flats in the precinct.

### Effective balance sheet management

- Loan-to-value ("LTV") improved to 46,2% at year-end
- Derisking of balance sheet by the closing out of £7,5 million of cross-currency interest rate swaps ("CCIRS") and the conversion of £2,5 million loan secured over SA assets into ZAR debt
- Refinanced 100% of the Standard Bank debt with a weighted average margin of 2,08% and weighted average tenure of 2,45 years
- Refinanced 100% of the UK wholly-owned portfolio debt with HSBC for five years with a weighted average margin of 2,25%
- Entities adhered to interest cover and LTV covenants.

### Executive summary

Texton owns 53 properties located in South Africa and the UK. The geographic split of the portfolio by value is 55,9% (2019: 58,5%) in South Africa and 44,1% (2019: 41,5%) in the UK (including our portion of Broad Street Mall). The portfolio in South Africa consists of 76,8% office, 8,6%, industrial and 14,6% retail properties. The UK portfolio is made up of 9,6% office, 38,6%, industrial and 51,8% retail.

The South African portfolio vacancy increased to 12,7% (2019: 10,8%) with 90,0% (2019: 83,6%) of leases expiring during the year being renewed. The UK portfolio is fully occupied.

[1] *A 50% share in a joint venture with Moorgarth Holdings (Luxembourg) S.à.r.l ("Moorgarth"), a subsidiary of JSE-listed Tradehold Limited.*



Total distributable income, before the effects of implementation of a pay-out ratio, for the financial year amounted to R151,3 million (2019: R268,4 million), representing a 46,1% decrease. The decrease in earnings is a result of:

- Realised foreign exchange loss incurred on the closing of a CCIRS
- Higher provision for bad debts reflecting the current economic environment and the possible further tenant failures
- No income from the joint venture was included in the distributable income for the current year.

We have disposed R209,0 million (2019: R286,4 million) of non-core assets to streamline operations and to make funds available to pay down debt. Our LTV[2] profiles improved marginally from 47,2% to 46,2% as a result of our focused approach on balance sheet management.

### Distributable earnings

**Calculation of distributable earnings**

| | 30 June 2020 R'000 | 30 June 2019 R'000 | % |
|---|---|---|---|
| Revenue | 521 905 | 558 025 | (6,5) |
| Impairment losses recognised on tenant debtors | (27 595) | 1 505 | (1 933,6) |
| Property expenses | (183 780) | (193 434) | 5,0 |
| Profit/(loss) from joint venture | 34 711 | (1 158) | 3 097,5 |
| Non-cash items included in profit/(loss) from joint venture | (34 711) | 11 166 | (410,9) |
| Other income | 4 715 | 11 000 | (57,1) |
| Administrative expenses | (38 022) | (34 223) | (11,1) |
| Net finance cost | (83 111) | (93 663) | 11,3 |
| – Finance income | 85 780 | 90 535 | (5,3) |
| – Finance cost | (168 891) | (184 198) | 8,3 |
| Taxation – pre-pay-out ratio adjustment | (29 803) | (18 131) | (64,4) |
| Distribution of realised foreign exchange (loss)/gain | (47 496) | 8 272 | (674,2) |
| Distributable earnings on treasury shares | 8 175 | 19 036 | (57,1) |
| **Distributable earnings** | 124 988 | 268 395 | (53,4) |
| **Number of shares in issue at year-end** | 376 066 766 | 376 066 766 | |

[2] *Calculated according to REIT 2019 second addition guidelines.*

# COMMENTARY CONTINUED

Net property income, excluding straight-lining adjustment, is made up as follows:

| | 30 June 2020 Rm | 30 June 2019 Rm | Variances % |
|---|---|---|---|
| **Investment property income**[3] | 521,9 | 558,0 | (6,5) |
| SA | 435,6 | 447,6 | (2,7) |
| Office | 331,6 | 333,6 | (0,6) |
| Industrial | 41,2 | 42,9 | (3,9) |
| Retail | 62,8 | 71,1 | (11,7) |
| UK | 86,3 | 110,4 | (21,8) |
| Office | 14,8 | 44,9 | (67,0) |
| Industrial | 42,2 | 38,7 | 9,0 |
| Retail | 29,3 | 26,8 | 9,4 |
| **Property expenses** | (211,4) | (191,9) | (10,2) |
| SA | (207,2) | (187,0) | (10,8) |
| Office | (156,4) | (133,9) | (16,8) |
| Industrial | (19,3) | (20,2) | 4,5 |
| Retail | (31,5) | (32,9) | 4,0 |
| UK | (4,2) | (4,9) | 14,3 |
| Office | (0,9) | (2,1) | 57,1 |
| Industrial | (1,6) | (1,4) | (14,3) |
| Retail | (1,7) | (1,4) | (21,4) |
| **Net property income** | 310,5 | 366,1 | 15,2 |

Investment property income decreased by 6,5% to R521,9 million, driven predominantly by the impact of rental relief, reversions in our SA retail portfolio, vacancies in SA and the sale of the Tesco Chobe property in the UK. SA investment property income decreased by 2,7% mainly as a result of rental reversions in our retail portfolio, rental relief provided in the office and retail portfolios, while an unbudgeted vacancy in the industrial portfolio further added to the decrease in investment property income. The loss of income (R25,4 million) from the sale of Tesco Chobe resulted in investment property income in the UK decreasing by 21,8%.

Property expenses increased by 10,1% due to an increased provision for bad debts as a direct result of the COVID-19 pandemic. Other property expenses were on par with the previous year. All non-critical expenditure was deferred to preserve cash during the final quarter of the financial year. Overall, net property income was 15,2% lower than the previous year.

Administration expenses increased by 11,1% to R38,0 million, driven by predominantly professional fees incurred in restructuring the balance sheet and additional head office costs during the transition in management. Finance costs decreased by 8,3% to R168,9 million as a result of the debt reductions achieved from the sale of properties towards the end of the previous financial year and early in the current financial year. Texton has not yet been able to fully benefit from the lower interest rate, as Texton maintains a significant hedged position, with 88% (2019: 93,5%) of its interest rate exposure hedged through interest rate swaps.

In order to reduce the risks to the balance sheet from currency movements, Texton closed out £7,5 million of CCIRS, which resulted in a realised foreign exchange loss of R50 million. In addition, 25% of a £10,0 million loan secured against South African assets was converted into Rand debt. Further unrealised foreign exchange losses were incurred which brings the total foreign exchange loss to R90,7 million (2019: (R0,5 million loss).

[3] *Exclusive of the effects of straight-lining of revenue.*



## PERFORMANCE OF OUR PROPERTY PORTFOLIO

### South Africa

**Macro-economic environment**

The South African economy is facing unprecedented economic headwinds, which has been further exacerbated by the COVID-19 pandemic and the lockdown initiated by the South African government to contain the COVID-19 outbreak in the country. The economy recorded four consecutive quarters of economic decline prior to 30 June 2020 and the county's sovereign rating was downgraded to junk status. The Minister of Finance has projected the fiscal deficit to be -14,6% of Gross Domestic Product ("GDP")[4]. These factors have resulted in significant foreign capital leaving the country and a negative impact on the value of the Rand.

The South African Reserve Bank ("SARB") revised its forecast 2020 GDP to an expected contraction of 7,3% and predicts that investment, exports and imports will decline further. Job losses are expected to rise, further pushing the already high unemployment rate in South Africa. The SARB forecast inflation to average 3,4% for the remainder of the 2020 calendar year. In line with international central banks, the SARB has decreased the repo rate by 300bps to provide stimulus to the economy.

At June 2020, the national office vacancy rate recorded by South African Property Owners Association ("SAPOA") was 12,3% – the highest vacancy rate in 16 years. Development activity slowed down further into 2020 and private sector construction ground to a halt during the lockdown. The office sector was already oversupplied prior to the pandemic and, in the absence of strong demand drivers and economic growth, the demand shock could result in a structural shift in the future role of office property.

Texton has limited exposure to retail and industrial properties in SA. The properties we own have proved to be resilient during these challenging times. The initial lockdown period and the continued government-imposed restrictions have significantly impacted the types of goods and services purchased by consumers and footfall in retail centres. The shift in consumer purchasing habits will still be felt by the retail sector and "the return to the mall" is still to manifest.

### Response to COVID-19

In mitigating the risks associated with the pandemic, our priorities are the health and safety of our employees, the support of our tenants and suppliers, and the management of working capital.

Texton is proud to say that it did not retrench any employees or reduce salaries during the various lockdown levels in the financial year. However, in support of government's efforts and in solidarity with all South Africans, the board waived 30% of their salaries for a three-month period.

Texton took decisive action to preserve cash by actively managing our working capital through the crisis. We are mindful that many of our tenants and suppliers are small, medium and micro enterprises ("SMMEs") and the lifeblood of the South African economy. We have actively engaged with both our tenants and suppliers, adopting a solutions-oriented mindset in an effort to generate win-win outcomes for all parties. We maintained our strong relationships with tenants, and we were proactive in following up on collections and providing relief on a case-by-case basis.

At the same time, we managed expenses by negotiating terms with our suppliers that were mutually beneficial to the sustainability of our business and theirs; and accelerated pre-existing expense-cutting measures and suspended all discretionary spend.

The duration and extent of COVID-19 is unknown and casts significant uncertainty when trying to quantify the financial impact. Therefore, the board considered it prudent and in the best interest of all stakeholders to exercise caution in these unprecedented times and, following consultation with the JSE, cancelled the payment of the interim dividend. We believe these steps were appropriate to assure we are well positioned to deal with the uncertainty that lies ahead. This strengthened our liquidity position and will helped see the business through the uncertainty.

[4] *Source: 2020 Supplementary Budget Review.*

# COMMENTARY CONTINUED

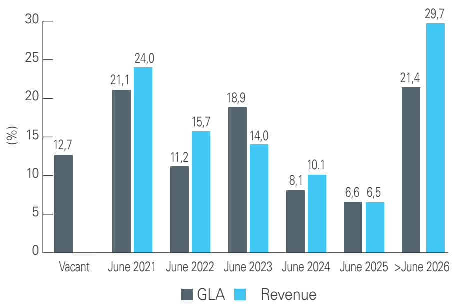
## PERFORMANCE

### South Africa

| Sector | GLA % | Value % |
|---|---|---|
| Office | 62,4 | 76,7 |
| Retail | 11,4 | 14,7 |
| Industrial | 26,2 | 8,6 |
| | **100,0** | **100,0** |

Our focus during the year has been on retaining and supporting tenants, filling vacancies, cost control and the disposal of non-core assets.

**South African lease expiry profile**




*Vacancy and letting*

Our vacancy rate deteriorated to 12,7% (36 246m²) from 10,8% (31 113m²) in June 2019. Of the 36 246m² vacant GLA, assets held for sale account for 17 606m². The remaining 18 640m² of vacant space is primarily our office portfolio in Gauteng. The Gauteng office portfolio vacancy rate was 9,7%, outperforming the 14,1% SAPOA Gauteng office vacancy rate.

Texton successfully concluded 36 (2019: 47) new leases with a combined GLA of 11 104m² (2019: 28 600m²).

We successfully renewed 57 179m² (89,7%) of the 63 713m² GLA (22,3% of our total portfolio) that expired this year. 25 646m² representing leases with the Department of Public Works have been renewed, which represent 45% of the GLA renewed in the current year. A total of 6 534m² was vacated during the year. In addition, 9 703m² was vacated by tenants prior to the expiry of their lease.

*Occupancy profile of the South African portfolio*

| Sector | Available GLA m² | Expiring GLA m² | New leases m² | Tenants retained m² | Retention % | Vacant GLA m² |
|---|---|---|---|---|---|---|
| Office | 178 077 | 42 270 | 3 082 | 41 479 | 98,1 | 22 170 |
| Industrial | 74 684 | 15 250 | 6 608 | 11 228 | 73,6 | 9 850 |
| Retail | 32 547 | 6 193 | 1 414 | 4 472 | 72,2 | 4 226 |
| **Total** | **285 308** | **63 713** | **11 104** | **57 179** | **89,7** | **36 246** |

The focused hands-on letting and renewal activity undertaken by Texton over the year has proved fruitful, with the weighted average lease profile improving to 3,20 years from 2,96 in December 2019.



*Rental collections*

The unprecedent environment has called for nimble and agile management and finding a pragmatic solution to balance the needs of the tenant and the landlord. Texton's management team engages daily with tenants on an individual basis. As a result of these efforts, cash collections across the portfolio remained at 90% during Q4. Cash collections for the financial year was 94,4%.

**Rental collections**

| | % OF COLLECTIONS RECEIVED | | | |
|---|---|---|---|---|
| **Sector** | **April** | **May** | **June** | **Q4 total** |
| Office | 92 | 99 | 87 | 92 |
| Industrial | 78 | 77 | 76 | 77 |
| Retail | 67 | 67 | 95 | 76 |
| **Total** | **87** | **93** | **87** | **90** |

To support tenants negatively impacted by the COVID-19 lockdown, Texton provided R3,0 million in rental relief, equating to 0,6% of annual gross income, to 25 tenants by way of rental discounts (35,3%) and rental deferrals (64,7%). Requests for rental relief have only been considered on an individual basis and take into account a tenant's good standing. Texton has also taken opportunities to negotiate lease re-gears in exchange for upfront rent-free incentives. Rent deferment structures range from one to three months with pay-back periods of three to six months.

*Net property income*

Excluding properties sold or held for sale during the year, net property income decreased by 7,8%. The movement was as a result of vacancies, higher impairment of debtors and larger rental revisions.

Net property income, excluding the lease straight-lining adjustment, was made up as follows in the past two years:

| | Office Rm | Retail Rm | Industrial Rm | Total Rm |
|---|---|---|---|---|
| **30 June 2020** | | | | |
| Investment property income | **331,6** | **62,8** | **41,2** | **435,6** |
| Property expenses | **(156,4)** | **(31,5)** | **(19,3)** | **(207,2)** |
| Net property income | **175,2** | **31,3** | **21,9** | **228,4** |
| Gross cost-to-income ratio (%) | **47,2** | **50,2** | **46,8** | **47,6** |
| Net cost-to-income ratio (%) | **22,0** | **40,7** | **25,0** | **32,8** |
| **30 June 2019** | | | | |
| Investment property income | 333,6 | 71,1 | 42,9 | 447,6 |
| Property expenses | (133,9) | (32,9) | (20,2) | (187,0) |
| Net property income | 199,7 | 38,2 | 22,7 | 260,6 |
| Gross cost-to-income ratio (%) | 40,1 | 46,3 | 47,1 | 41,8 |
| Net cost-to-income ratio (%) | 23,6 | 34,8 | 24,4 | 25,5 |

# COMMENTARY CONTINUED

*Office sector*

Investment property income has remained stable, with a slight reversion to R331,6 million year-on-year. The reversion was predominantly due to rent relief of R2,9 million that was granted during Q4. Property expenses were largely impacted by a R17,2 million increase in bad debts provision and a higher-than-expected increase in electricity tariffs by R6,4 million. The large increase in bad debts is due to Texton's increased bad debt provision for Edcon, (which occupies Edcon Park, 12 Laub Street) going into business rescue at the beginning of Q4.

*Retail sector*

Income declined significantly by R8,3 million, driven by rental reversions, as well as rent relief as the retail sector suffered from the COVID-19 pandemic and the related lockdown restrictions. Property expenses were impacted by a decrease in turnover rent expense (R1,2 million) payable on land lease on Woodmead and Kempstar mall and an increase in the provision of bad debts.

*Industrial sector*

Income declined slightly due to a single tenant unbudgeted vacancy and rent reversions of R1,7 million. Property expenses were in-line with the prior year.

Details relating to the sale of non-core assets are outlined under **Capital management** on the next page.

## United Kingdom

### Macro-economic environment

The UK economy contracted by a record 20,4% in Q4 2020, following a 2,2% contraction in Q3 2020 as a result of the impact of COVID-19 lockdown measures on business activity and spending. The scale of the contraction was caused by the large share of consumer-facing services in the economy, combined with a deeper and longer lockdown than most other developed countries.

The UK economy has shown some recovery, with GDP rebounding by 2,4% in May and a further 8,7% in June, following the re-opening of shops. The full impact of the recession on the labour market will be visible when the furlough scheme ends in October. Some forecasters predict the unemployment rate could rise to double digits.

An economic recovery is likely to be accompanied by accelerated structural shifts in occupier demand for property. A large portion of retail spend has been driven online and retailer insolvencies have exacerbated the oversupply of shops, presenting change-of-use opportunities in strong locations.

For many companies, the role of the office will evolve to focus more on collaboration, training, meetings and flexible working. Central London offices will be particularly exposed if a Brexit trade deal cannot be agreed and access for London-based European Union ("EU") financial services occupiers is impaired.

### Performance

Texton's UK portfolio continued to perform well throughout the year, underpinned by the strength of the tenant base and the longevity of income streams. The portfolio remained fully occupied and leased.

At Lower Parliament Street in Nottingham, a new five-year lease was signed in March 2020 with Peacocks. Following the administration of previous tenants, Bon Marche, the substantial covenant of Peacocks provides enhanced income security.

Proactive asset management at Mowbray House in Nottingham resulted in an extension of the lease for a further five years. This de-risked what was previously the shortest unexpired lease in the portfolio and the greatest future vacancy threat.

These two new leases increased the WALE of the UK portfolio from 8,9 years as at 30 June 2019 to 9,23 years as at 30 June 2020.

Texton's income profile was further strengthened by upward rent reviews throughout the year. Income collection on the portfolio remained robust throughout the COVID-19 lockdown period, with only two tenants electing not to pay rent. Despite the UK government imposing restrictions to prevent enforcement measures, 97% of rent due was collected during the lockdown period. The collection rate was 100% prior to the pandemic.

Texton's recent sales increased the weighting of the wholly-owned portfolio towards the more defensive and less impacted industrial property sector, which now accounts for 61,4% of the value of the portfolio.

The sales of Texton's Newcastle and Warrington office properties leaves one remaining office property in the portfolio, which is earmarked for sale. Initial interest in the property has been encouraging.

One of Texton's retail assets in Nottingham is also earmarked for sale. The asset has been partially insulated from challenges in the sector due to the length of contracted income, strong location and re-development potential. Our two remaining retail assets are "big box" retail warehouses, a format that has been less affected by COVID-19 lockdown measures than other properties.

### Broad Street Mall

During the year, Texton devoted significant focus to its 50% interest in Broad Street Mall. Substantial progress was made prior to the COVID-19 pandemic and investment now continues while recognising the subsequent structural changes in the UK retail market. The updated business plan includes:

*Asset management*

Four major leasing deals were signed during the year:

- New 25-year lease for a cinema development
- New 15-year lease to develop a food hall
- 10-year lease to co-space at Quadrant House serviced offices
- The lease with the shopping centre's main anchor tenant was extended for a further 10 years.

*Development*

- Agreement was reached for the development of a hotel. Development funding was agreed with an investment fund, a construction contract was negotiated and conditions in the planning consent were cleared down
- In March 2020, a resolution to grant planning consent for 422 flats above the shopping centre was received.

Broad Street Mall enjoys an excellent location in the centre of one of the UK's most vibrant and growing towns, with excellent transport links to London and Heathrow. The addition of a new cross-rail terminal will further boost connectivity. A combination of the mixed-use nature of the asset, the scale of the five-acre site and the prime location offer excellent scope to continue to evolve and repurpose the asset going forward.

We are excited with the many potential opportunities to add future value.

## Capital management

The importance of a robust balance sheet is now more important than ever before. Before lockdown measures, Texton's focus was already on reducing the LTV ratio and derisking the balance sheet from currency and market risks. As a result of these initiatives, Texton's managed to reduce its group LTV from 47,2% to 46,2%.

*Sale of non-core properties*

We identified 14 properties valued at R529,5 million at 30 June 2019 for disposal. Two of these properties (valued at R209,0 million) were sold and transferred by 30 June 2020. The COVID-19 pandemic resulted in delays in transfer process due to the closing of municipalities and deeds offices during the last quarter of the financial year. As at 30 June 2020, we identified a further four properties for sale, taking the total properties available for sale to 16, which were valued at R601,3 million for disposal. Eight of these properties (valued at R154,6 million) have been contracted for and we expected sales to be completed by 31 December 2020.

*Group borrowings*

Texton was able to refinance all debt that expired in the current financial year on favourable terms and tenures. This process showed that we have funders that support our business and the improved tenures provide Texton will a solid foundation from which to grow.

# COMMENTARY CONTINUED

Total debt as at 30 June 2020 amounted to R2,0 billion, made up as follows:

| | ZAR facilities Rm | GBP facilities £m | Total facilities Rm |
|---|---|---|---|
| Total debt facilities | 1 132,9 | 40,2 | 1 997,4 |
| Total debt drawn | 1 132,9 | 40,2 | 1 997,4 |
| Net debt# | 1 051,3 | 37,5 | 1 857,8 |
| Subject to fix rates | 995,0 | 29,8 | 1 636,7 |
| % hedged on net debt (%) | 94,6 | 79,4 | 88,1 |
| Effective interest rate (%) | 9,4 | 2,9 | 6,6 |
| Weighted average expiry (years) | 2,2 | 4,2 | 3,1 |

# *Debt less cash and cash equivalents.*

Texton refinanced R932 million of Standard Bank debt in the current year. The new debt was split into four different tranches:

| | Rate | Term |
|---|---|---|
| Standard Bank tranche A | JIBAR* + 1,95% | 12 months |
| Standard Bank tranche B (RCF) | Prime -60bps | 18 months |
| Standard Bank tranche C | JIBAR* + 235bps | 30 months |
| Standard Bank tranche D | JIBAR* + 245bps | 36 months |

* *Johannesburg Interbank Agreed Rate.*

In the UK, Texton refinanced £1,7 million of debt expiring, with Santander with a new five-year facility with HSBC. At the same time, Texton refinanced all its debt with HSBC totalling £32,7 million on a five-year facility with HSBC at a margin of 2,25% above LIBOR**. The margin decreases to 2,10% when the LTV on the portfolio reduces to 55%, which is expected to be completed by December 2020. The increased maturity and improved covenants will further support the sustainability of our UK portfolio.

Our loan and swap profile as at 30 June 2020 is as follows:

| | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|---|---|---|---|---|---|---|
| **ZAR debt** | | | | | | |
| Loan expiry profile (Rm) | 282 | 149 | 702 | | | 1 133 |
| Hedging profile (Rm) | 695 | 200 | 100 | | | 995 |
| **GPB debt** | | | | | | |
| Loan expiry profile (£'m) | 7,5 | | | | 32,7 | 40,2 |
| Hedging profile (£'m) | | 29,8 | | | | 29,8 |
| **Group** | | | | | | |
| Loan expiry profile (Rm) | 446 | 149 | 702 | | 703 | 1 997 |
| Hedging profile (Rm) | 695 | 742 | 200 | | | 1 637 |

*** London Interbank Offered Rate.*



Texton maintains a significant hedged position, with 88% (2019: 93,5%) of its interest rate exposure hedged through interest rate swaps. While this mitigates interest rate volatility, we are unable to take advantage of the low interest rates on offer in the current environment. We are investigating ways to benefit from these lower interest rates.

As at 30 June 2020, Texton had R98,3 million of property unencumbered (2019: R131,1 million).

**CCIRSs**

As at 30 June 2020, we only had one CCIRS in place:

| | GBP Nominal £m | ZAR Nominal Rm | GBP/ZAR initial rate | GBP average rate over the term % | ZAR fixed rate over the term % | Maturity | Mark-to-market Rm |
|---|---|---|---|---|---|---|---|
| Investec | 30,8 | 600,0 | 19,48 | 3,18 | 11,0 | 2 Sept 2021 | 32,2 |

During the year, Texton closed out a CCIRS with mark-to-market close-out cost of R50,0 million in order to de-risk the balance sheet and reduce the value of CCIRS as a % of the total value of off-shore investments. No new CCIRSs where entered during the year. The mark-to-market of the CCIRS as at 30 June 2020 was a R32,2 million liability and no margining was required to be posted with Investec at the year-end. Texton is committed to reduce its exposure to CCIRSs further over the medium term and we have been in discussions with our funders in this regard.

## INVESTMENT PROPERTY

Texton's policy is to have one third of its properties externally valued by an independent valuer each year. The remaining properties are valued internally by the board, using the same methodology applied by the external valuers. For the financial year ended 30 June 2019, we valued the entire portfolio using an independent valuer. This was done to obtain a baseline for future valuations.

The table below show the value of properties valued externally against the value of properties valued internally, and the movement in property valuation for the year ended 30 June 2020:

| R'000 | % of portfolio | 2020 | 2019 | Change | % change |
|---|---|---|---|---|---|
| **SA properties** | | | | | |
| Internally valued | 37,4 | **934 700** | 977 100 | (42 400) | (4,3) |
| Externally valued | 49,5 | **1 234 800** | 1 213 000 | 21 800 | 1,8 |
| Held for sale | 13,1 | **326 492** | 373 900 | (47 408) | (12,7) |
| **Total SA properties** | 100,0 | **2 495 992** | 2 564 000 | (68 008) | (2,7) |
| **UK properties** | | | | | |
| Internally valued | 46,9 | **587 907** | 492 673 | 95 234 | 19,3 |
| Externally valued | 31,2 | **391 650** | 324 280 | 67 370 | 20,8 |
| Held for sale | 21,9 | **274 801** | 430 264 | (155 463) | (36,1) |
| **Total UK properties** | 100,0 | **1 254 358** | 1 247 217 | 7 142 | 0,6 |
| **Total properties** | | | | | |
| Internally valued | 40,5 | **1 522 607** | 1 469 773 | 52 834 | 3,6 |
| Externally valued | 43,3 | **1 626 450** | 1 537 280 | 89 170 | 5,8 |
| Held for sale | 16,2 | **601 293** | 804 164 | (202 871) | (25,2) |
| **Total properties** | 100,0 | **3 750 350** | 3 811 217 | (60 867) | (1,6) |

# COMMENTARY CONTINUED

Uncertainty due to COVID-19 measures impacted property values. As a result, we adopted a conservative outlook on property valuation assumptions. We increased exit capitalisation rates by at least 50 basis points, tempered market rental growth expectations and did not factor any potential cost savings into property expense forecasts as a result of our response to the financial impact of COVID-19 mitigation measures

## NET ASSET VALUE ("NAV") PER SHARE

NAV decreased by 29,74 cents per share:

| | 30 June 2020 R'000 | 30 June 2019 R'000 |
|---|---|---|
| Reported NAV attributable to the parent | 1 972 737 | 2 123 952 |
| *Adjustments:* | | |
| Fair value of interest rate swaps | 55 911 | 14 200 |
| Deferred tax | 12 754 | 7 303 |
| **Total equity** | 2 041 402 | 2 145 455 |
| **Shares outstanding** | | |
| Number of shares in issue at year-end (net of treasury shares) ('000) | 349 395 | 349 395 |
| Dilutive number of shares in issue | – | – |
| **Total shares ('000)** | 349 395 | 349 395 |
| NAV per share (cents) | 584,27 | 614,05 |

## CURRENCY

The closing exchange rate on 30 June 2020 was R21,52 per £1 (2019: R17,87 per £1) and the average exchange rate for the year was R21,44 per £1 (2019: R18,37 per £1).

## STATED CAPITAL AND SHARES REPURCHASED

The group holds 10 428 348 (2019: 10 428 348) treasury shares via the Texton Property Fund Limited Share Incentive Scheme Trust. Discus House Proprietary Limited, a subsidiary of Texton, holds a further 16 243 865 (2019: 16 243 865) shares, bringing the total number of treasury shares held to 26 672 213 (2019: 26 672 213).

There have been no share buy-backs during the period.

## SA REIT ASSOCIATION BPR

The SA REIT Association recently released a second edition BPR, which deals with best practice reporting for SA REITs. The new BPR is applicable for REITs with financial year-ends starting from 1 January 2020 and will accordingly be applicable to Texton from the financial year ending 30 June 2021. We will assess the new BPR in due course and will, as far as possible, endeavour to comply with its recommendations.



## PAYMENT OF FINAL DIVIDEND

Texton has elected to defer the decision relating to the payment of a final dividend. The JSE originally notified REITs on 26 June 2020 that interim relief has been approved by the Financial Sector Conduct Authority ("FSCA") to allow REITs, with year ends from February to September 2020, to postpone the payment of their dividends for an additional two-month period over and above the requirement to pay dividend within four months of year end. On 22 September 2020, the JSE notified the market via SENS that the FSCA had advised that they are not in a position to consent to the request put to them by the JSE in regards to the relaxation of the pay out ratio requirements for REITs. Due to the timing of the JSE's announcement and Texton's results announcement, Texton will need to assess the implications of this announcement and will make a dividend decision within the required timeframe.

## TAXATION

Due to the deferral of the dividend payment highlighted above, Texton provided for provisional tax on its taxable earnings for the year ended 30 June 2020. Should Texton make a dividend payment in respect of the year ended 30 June 2020, taxable income will be reduced by the amount of the dividend declared.

## PROSPECTS AND OUTLOOK

The South African economy is expected to contract by up to 7,3% in the current year as it suffers from both demand and supply-side shocks. Inflation is expected to remain muted in the medium term, which should allow the SARB to maintain lower interest rates for longer, which we believe will provide some degree of relief for property owners and consumers. South Africa will, however, need more than just accommodative monetary policy to turn the economy around.

Our operating environment will remain challenging for the foreseeable future, characterised by pressure on rental incomes and an ever-increasing cost environment. Electricity supply is expected to be constrained and rates continue to rise in excess of inflation.

Tenants are leveraging the soft rental market to their advantage by occupying better space at lower rentals. Leases are taking longer to sign with difficult negotiations. Competition among landlords will persist, with material lease incentives being offered to attract tenants.

In the UK, the government's generous support, in particular the job retention scheme, held the economy together during the hard lockdown. Notwithstanding these initiatives, the UK economy is in the midst of the most severe economic downturn in modern times and it is forecast that GDP will contract by 7,2% in 2020 before rising in 2021, on the assumption that a favourable trade deal will be negotiated with the EU.

Against this backdrop, Texton reaffirms its commitment to retain tenants, and reduce vacancies and costs, both at a property and head office level. The strengthening of our balance sheet through the lowering of our LTV and treasury management is of paramount importance as we continue to navigate the effects of the pandemic on the markets in which we operate.

Looking ahead, we intend adopting a variable dividend pay-out policy going forward, which may include a lower pay-out ratio as well as variable timing of the dividend payment.

Texton's portfolio is defensively positioned in both markets in which it operates. The fundamental defensive nature of the portfolio was demonstrated during the initial three months of the COVID-19 pandemic, where the collections in the portfolio were 90% in South Africa and 97% in the UK.

We believe that the sale of the non-core assets, the low interest rate environment and the strength of our core portfolio will provide a suitable foundation for management to pivot Texton into a new future.

## CHANGES TO THE COMPANY'S LEADERSHIP

The company's leadership underwent a number of changes during the year and thereafter:

- Robert Franco was appointed as a non-executive director 21 November 2019
- Wayne van der Vent was appointed as an independent non-executive director, effective 21 November 2019
- Inge Pick resigned as chief financial officer on 4 December 2019
- Marius Muller resigned as chief executive officer on 31 March 2020
- Pinny Hack was appointed as chief financial officer, effective 12 June 2020
- Pienaar Welleman was appointed as interim chief executive officer, effective 30 June 2020.

## CONDENSED CONSOLIDATED
# STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | 3 416 932 | 3 578 646 |
| Investment property | 3 149 057 | 3 291 916 |
| Plant and equipment | 3 236 | 1 911 |
| Tenant installation | 6 089 | 11 448 |
| Investment in joint venture | 252 272 | 206 094 |
| Other non-current assets | 6 278 | 9 789 |
| Other financial assets | – | 57 488 |
| **Current assets** | 189 864 | 381 915 |
| Restricted cash | – | 12 782 |
| Trade and other receivables | 44 222 | 43 920 |
| Income tax receivable | 3 451 | 1 228 |
| Cash and cash equivalents | 142 191 | 323 985 |
| **Investment property held for sale** | 601 293 | 529 523 |
| **Total assets** | 4 208 089 | 4 490 084 |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | 1 972 740 | 2 123 952 |
| Stated capital | 2 842 473 | 2 842 473 |
| Retained earnings | (758 095) | (504 642) |
| Foreign currency translation reserve | (111 638) | (213 879) |
| **Non-current liabilities** | 1 642 388 | 545 930 |
| Other financial liabilities | 1 626 382 | 535 301 |
| Lease liability | 3 252 | 3 326 |
| Deferred tax | 12 754 | 7 303 |
| **Current liabilities** | 592 961 | 1 820 202 |
| Other financial liabilities | 456 440 | 1 720 475 |
| Trade and other payables | 107 923 | 90 318 |
| Income tax payable | 28 598 | 9 409 |
| **Total equity and liabilities** | 4 208 089 | 4 490 084 |



## CONDENSED CONSOLIDATED
# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2020

| | Audited 30 June 2020 R'000 | Restated* 30 June 2019 R'000 |
|---|---|---|
| **Investment property income** | 521 905 | 558 025 |
| Straight-line rental adjustment | (2 720) | (2 360) |
| **Revenue** | 519 185 | 555 665 |
| Impairment losses recognised on tenant debtors* | (27 595) | 1 505 |
| Property expenses* | (183 780) | (193 434) |
| **Net property income** | 307 810 | 363 736 |
| Other income | 4 715 | 11 000 |
| Administrative expenses | (38 022) | (34 223) |
| Profit/(loss) from joint venture | 34 711 | (1 158) |
| Foreign exchange losses | (90 732) | (505) |
| **Operating profit** | 218 482 | 338 850 |
| Finance income | 85 780 | 90 535 |
| Finance costs | (168 891) | (184 198) |
| Fair value adjustments | (196 849) | (699 524) |
| Loss on disposal of subsidiary | – | (9 041) |
| Impairment of investment in joint venture | – | (30 418) |
| Capital items | – | (14 350) |
| **Loss before tax** | (61 478) | (508 146) |
| Taxation expense | (69 023) | (29 792) |
| **Loss for the year** | (130 501) | (537 938) |
| Other comprehensive income/(loss): | | |
| Items that may be reclassified to profit or loss: | | |
| Exchange differences on translating foreign operations | 102 241 | 1 075 |
| **Total comprehensive loss for the year** | (28 260) | (536 863) |
| Loss and total comprehensive loss for the year attributable to: | | |
| Equity holders of the company | (28 260) | (536 863) |
| **Basic and diluted earnings per share (cents)** | (37,35) | (153,96) |
| **Headline earnings per share (cents)** | (23,35) | 55,62 |

** Amounts included in the prior year balance have been reclassified. Please refer to note 16 for details.*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2020

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated by operations | 262 879 | 334 834 |
| Interest received | 85 609 | 90 535 |
| Interest paid | (162 636) | (167 503) |
| Commissions paid | (3 614) | (5 751) |
| Dividends paid | (122 952) | (270 921) |
| Taxation paid | (47 477) | (7 786) |
| **Net cash inflow/(outflow) from operating activities** | 11 809 | (26 592) |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | (2 166) | (910) |
| Additions to investment property | (1 706) | (5 474) |
| Proceeds on disposal of investment property | 208 928 | 286 398 |
| Loans repaid | – | 332 |
| Funds advanced to joint venture | (11 469) | (18 328) |
| Tenant installation incurred | (3 265) | (4 754) |
| **Net cash inflow from investing activities** | 190 322 | 257 264 |
| **Cash flows from financing activities** | | |
| Realisation of currency put option | – | 5 853 |
| Proceeds from other financial liabilities | 57 845 | 426 361 |
| Repayments of other financial liabilities | (457 288) | (468 961) |
| Settlement of lease liability | (472) | (474) |
| **Net cash outflow from financing activities** | (399 915) | (37 221) |
| Net (decrease)/increase in cash and cash equivalents for the year | (197 784) | 193 451 |
| Cash and cash equivalents at the beginning of the year | 323 985 | 93 668 |
| Effect of exchange rate movement on cash and cash equivalents | 3 382 | (220) |
| Release of restricted cash | 12 608 | 37 086 |
| **Cash and cash equivalents at the end of the year** | 142 191 | 323 985 |



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2020

| | Stated capital R'000 | Foreign currency translation reserve R'000 | Retained earnings R'000 | Total R'000 |
|---|---|---|---|---|
| **Balance at 1 July 2018** | 2 257 206 | (214 954) | 246 816 | 2 289 068 |
| Expected credit losses arising from IFRS 9 application | – | – | 98 | 98 |
| **Total comprehensive loss for the year** | – | 1 075 | (537 938) | (536 863) |
| – Loss for the year | – | – | (537 938) | (537 938) |
| – Exchange differences on translation of foreign operations | – | 1 075 | – | 1 075 |
| **Transactions with shareholders recognised directly in equity** | 586 267 | – | (213 618) | 371 649 |
| – Extinguishment of Public Investment Corporation put option liability | 642 570 | – | – | 642 570 |
| – Derecognition of Public Investment Corporation put option liability | (57 303) | – | 57 303 | – |
| – Dividend paid | – | – | (270 921) | (270 921) |
| **Balance at 30 June 2019** | 2 842 473 | (213 879) | (504 642) | 2 123 952 |
| **Total comprehensive income for the year** | – | 102 241 | (130 501) | (28 260) |
| – Loss for the year | – | – | (130 501) | (130 501) |
| – Exchange differences on translation of foreign operations | – | 102 241 | – | 102 241 |
| **Transactions with shareholders recognised directly in equity** | – | – | (122 952) | (122 952) |
| – Dividend paid | – | – | (122 952) | (122 952) |
| **Balance at 30 June 2020** | 2 842 473 | (111 638) | (758 095) | 1 972 740 |

# BASIS OF PREPARATION
# ACCOUNTING POLICIES AND AUDIT OPINION

## 1. BASIS OF PREPARATION

The abridged summarised consolidated annual financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements, the requirements of the Companies Act of South Africa, 71 of 2008 ("Companies Act"), the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34: *Interim Financial Reporting*. These do not include all of the information required in annual financial statements in accordance with IFRS and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2020.

The accounting policies applied in the preparation of the abridged summarised consolidated annual financial statements are in terms of IFRS and are consistent with those applied in the previous audited consolidated annual financial statements except for where it has been stated otherwise.

These abridged summarised consolidated annual financial statements have been prepared on a going concern basis. All monetary information is presented in the functional currency of the company, being South African Rand and is rounded to the nearest thousand (R'000).

Any information included in this announcement that might be perceived as a forward-looking statement has not been reviewed or reported on by the company's auditors in accordance with section 8.40(a) of the JSE Listings Requirements.

These abridged summarised consolidated annual financial statements were prepared under the supervision of the chief financial officer, Mr P Hack CA(SA).

## 2. AUDIT OPINION

These abridged summarised consolidated annual financial results are extracted from the audited financial statements, but is not itself audited. The consolidated financial statements for the year ended 30 June 2020 were audited by SizweNtsalubaGobodo Grant Thornton ("SNG GT"), who expressed an unmodified opinion thereon. The audited consolidated financial statements for the year ended 30 June 2020 and the auditor's report thereon is available for inspection at the company's registered office.

The directors take full responsibility for the preparation of these preliminary summarised consolidated annual financial results and that the financial information has been correctly extracted from the consolidated financial statements.

The auditor's report does not necessarily report on all of the information contained in these abridged summarised consolidated annual financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office or on Texton corporate website www.texton.co.za.

## 3. SIGNIFICANT JUDGEMENTS

When preparing these abridged summarised consolidated annual financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The judgements, estimates and assumptions applied in the abridged summarised consolidated annual financial statements, including the key sources of estimation uncertainty, were the same as those applied in the group's last annual financial statements for the year ended 30 June 2020.

## 4. ADOPTION OF NEW STANDARD

The group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

### IFRS 16: *Leases*

IFRS 16: *Leases* replaces IAS 17: *Leases* along with three interpretations (IFRIC 4: *Determining whether an Arrangement contains a Lease*, SIC 15: *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*). The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment (if any) to the opening balance of retained earnings for the current period. Prior periods have not been restated.

### Operating leases as lessor

The group is primarily a lessor and leases out investment properties under operating leases (see note 5).

## 5. SIGNIFICANT ACCOUNTING POLICIES

The summarised audited consolidated annual financial statements have been prepared in accordance with the accounting policies adopted in the group's most recent consolidated annual financial statement for the year ended 30 June 2020.

### Leases

As described in note 4, the group has applied IFRS 16 using the modified approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17.

### The group as a lessor

The group is a party to numerous leasing contracts. The group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor, the group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers all the risks and awards incidental to ownership of the underlying asset substantially and classified as an operating lease if it does not. Texton classifies all leases as operating leases as the group retains a significant portion of the risks and rewards of ownership. Texton will, therefore, continue to reflect the underlying assets subject to the lease arrangements on the balance sheet for leases classified as operating.

### Transition

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

Lease liabilities are presented in the statement of financial position as a separate line item as follows:

| | Year ended 30 June 2020 R'000 | Year ended 30 June 2019 R'000 |
|---|---|---|
| **Current liabilities** | | |
| Lease liabilities | 85 | – |
| **Non-current liabilities** | | |
| Lease liabilities | 3 167 | 3 326 |

# NOTES TO THE ABRIDGED SUMMARISED CONSOLIDATED CONDENSED RESULTS

## 6. INVESTMENT PROPERTY

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| **Reconciliation of movement in investment property for the year** | | |
| Balance at beginning of the period | 3 291 916 | 4 534 810 |
| Additions | 1 706 | 5 491 |
| Straight-line rental adjustment | (2 719) | (2 360) |
| Fair value adjustments | (24 443) | (690 671) |
| Transfer from investment property reclassified as held for sale | (330 601) | (529 523) |
| Disposals | (469) | (12 400) |
| Foreign currency translation reserve | 213 667 | (13 431) |
| **Balance at end of the year** | 3 149 057 | 3 291 916 |

In terms of IAS 40: *Investment Property* and IFRS 13: *Fair Value Measurement: Disclosures*, investment properties are measured at fair value and are categorised as level-three investments. In determining the fair value, the traditional discounted cash flow ("DCF") method of valuation has been used. At year-end, the fair value of investment properties was determined through a combination of internal and external valuations. In line with the group's methodology, one third of the group's property portfolio is valued by external independent valuers and two thirds are valued internally using methodology that is similar to the external valuers. In line with the JSE listing requirements, the full portfolio will be valued by independent external valuers in a three-year period.

A register of properties is, maintained at the company's offices and is available for viewing.

## 7. INVESTMENT IN JOINT VENTURE

| | Audited June 2020 R'000 | Audited June 2019 R'000 |
|---|---|---|
| Balance at beginning of the year | 206 094 | 223 184 |
| Current period profit/(loss) from joint venture | 34 711 | (1 158) |
| Advances to joint venture | 11 467 | 18 328 |
| Foreign exchange movements | – | (3 842) |
| Impairment of interest in joint venture | – | (30 418) |
| **Balance at end of the year** | 252 272 | 206 094 |



## 8. OTHER FINANCIAL LIABILITIES

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| Balance at beginning of year | 2 255 776 | 2 272 730 |
| – Non-current | 535 301 | 374 289 |
| – Current | 1 720 475 | 1 898 441 |
| Advances during the year | 57 845 | 426 361 |
| Repayments during the year | (457 288) | (468 961) |
| Foreign currency translation reserve movements | 112 737 | (9 386) |
| Unrealised foreign exchange movements | 38 900 | (2 259) |
| Fair value on interest rate swaps | 38 634 | 21 709 |
| Structuring fees amortised during the year | – | 4 091 |
| Interest accrual | 4 054 | 12 199 |
| Transfer from other financial assets | (57 488) | |
| Fair value on cross currency interest rate swap | 89 652 | |
| Reclassification of share appreciation rights liability | – | (708) |
| Closing balance at end of year | 2 082 822 | 2 255 776 |
| – Non-current | 1 626 382 | 535 301 |
| – Current | 456 440 | 1 720 475 |

Significant movements during the year included the following:

- The sale of Chobe Tesco resulted in a large portion of the Santander facility amounting to R201 million being repaid
- A repayment of R139 million was settled against the Standard Bank long-term facility
- The Santander facility of R237 million was settled in full and a new facility with HSBC of R57 million was raised.

## 9. INVESTMENT PROPERTY HELD FOR SALE

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| Balance at the beginning of the year | 529 523 | 272 156 |
| Transferred from investment property | 330 601 | 529 523 |
| Disposals | (210 457) | (272 156) |
| Changes in fair value | (45 608) | – |
| Foreign currency translation reserve | (2 766) | – |
| **Balance at the end of the year** | 601 293 | 529 523 |

# NOTES TO THE ABRIDGED SUMMARISED CONSOLIDATED CONDENSED RESULTS

CONTINUED

## 10. FINANCIAL INSTRUMENTS

| | AT AMORTISED COST | | FAIR VALUE THROUGH PROFIT OR LOSS – HELD FOR TRADING | |
|---|---|---|---|---|
| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
| **Financial assets** | | | | |
| Other non-current assets | – | 664 | – | – |
| Other financial assets | – | – | – | 57 488 |
| Restricted cash | – | 12 782 | – | – |
| Trade and other receivables | 66 014 | 36 030 | – | – |
| Cash | 142 191 | 323 985 | – | – |
| **Financial assets** | 208 205 | 373 461 | – | 57 488 |
| **Financial liabilities** | | | | |
| Other financial liabilities | 2 029 521 | 2 241 211 | 85 467 | 14 565 |
| Trade and other payables | 64 692 | 59 086 | – | – |
| **Financial liabilities** | 2 094 213 | 2 300 297 | 85 467 | 14 565 |

The fair values of all financial instruments, interest rate swaps and fixed rate financial liabilities are substantially the same as the carrying amounts reflected on the statement of financial position.

In terms of IFRS 9, the group's currency and interest rate derivatives are measured at fair value through profit or loss and are categorised as level 2 investments.

The fair value of the currency derivatives included in other financial liabilities was a liability of R32,2 million (June 2019: R57,5 million asset included in other financial asset) and the fair value of the interest rate derivative net liability included in other financial liabilities was R53,3 million (June 2019: R14,5 million). These fair values were determined using valuation techniques that present value to the net cash flows. These cash flows are based on observable market data.

There were no transfers between levels 1, 2 and 3 during the year. The valuation methods applied are consistent with those applied in preparing the consolidated annual financial statements for the year ended 30 June 2020.



## 11. FAIR VALUE

The company's financial assets and liabilities and investment properties are classified according to the following three-tiered fair value hierarchy:

**Level 1:** Quoted prices (unadjusted) in an active market for an identical instrument.

**Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

**Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category also includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial assets and liabilities carried at fair value and investment properties where the fair value approximates the carrying amount:

| | CARRYING VALUE | | | |
|---|---|---|---|---|
| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
| **30 June 2020** | | | | |
| Interest rate swap | – | (53 303) | – | (53 303) |
| Currency swap | – | (32 164) | – | (32 164) |
| Investment property | – | – | 3 149 057 | 3 149 057 |
| Investment property held for sale | – | – | 601 293 | 601 293 |
| **30 June 2019** | | | | |
| Interest rate swap | – | (14 565) | – | (14 565) |
| Currency swap | – | 57 488 | – | 57 488 |
| Investment property | – | – | 3 291 916 | 3 291 916 |
| Investment property held for sale | – | – | 529 523 | 529 523 |

# NOTES TO THE ABRIDGED SUMMARISED CONSOLIDATED CONDENSED RESULTS
CONTINUED

## 11. FAIR VALUE CONTINUED

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value measurements |
|---|---|---|---|
| Derivative assets and liabilities: Interest rate swaps | Fair valued monthly by Investec, Standard Bank and HSBC using mark-to-market mid-market values. This involves, *inter alia,* discounting the future cash flows using the yield curves at the reporting date and the credit risk inherent in the contract. | Not applicable | Not applicable |
| Derivative assets and liabilities: Cross-currency interest rate swaps contracts | Fair valued monthly by Investec using mark to market mid-market values. This involves, *inter alia,* discounting the future cash flows using the basis swap curves of the respective currencies at the date when the cash flows will take place. | Not applicable | Not applicable |

## 12. EVENTS AFTER THE REPORTING DATE

### Transfer of investment property

Standard Bank Ladysmith and a portion of Wale Street Chambers that was held for sale at 30 June 2020, subsequently transferred to the purchasers on 13 August 2020 and 18 September 2020 respectively.

### Lease cancellation

Texton was notified by the business rescue practitioners of Edcon Limited on 18 September 2020 , that Edcon will be cancelling the lease at 12 Laub Street, Edcon Park, effective 1 November 2020.

The board is not aware of any other events that have a material impact on the results or disclosures of the group and which have occurred subsequent to the end of the reporting period.

## 13. DIVIDEND PAID

| | Audited Year ended 30 June 2020 R'000 | Audited Year ended 30 June 2019 R'000 |
|---|---|---|
| Dividends paid | 122 952 | 270 920 |

Dividends are paid from income reserves.



## 14. SEGMENT REPORTING

The group has two reportable segments based on the geographic split which are the group's strategic business segments. These two geographic segments are then split between office, retail and industrial sectors within these regions. Segments are located in South Africa and the United Kingdom.

During the year ended 30 June 2020, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

| | SOUTH AFRICA | | UNITED KINGDOM | | TOTAL | |
|---|---|---|---|---|---|---|
| | Audited Year ended 30 June 2020 R'000 | Audited Year ended 30 June 2019 R'000 | Audited Year ended 30 June 2020 R'000 | Audited Year ended 30 June 2019 R'000 | Audited Year ended 30 June 2020 R'000 | Audited Year ended 30 June 2019 R'000 |
| **Segmental revenue – rental revenue** | | | | | | |
| Office | 326 144 | 334 203 | 13 971 | 44 893 | 340 115 | 379 096 |
| Retail | 61 112 | 67 536 | 29 365 | 26 793 | 90 477 | 94 329 |
| Industrial | 42 528 | 39 870 | 46 065 | 42 370 | 88 593 | 82 240 |
| | 429 784 | 441 609 | 89 401 | 114 056 | 519 185 | 555 665 |
| **Profit before tax** | | | | | | |
| Office | 126 116 | (233 853) | 4 315 | (44 062) | 130 431 | (277 915) |
| Retail | 24 386 | (87 651) | 169 718 | (84 028) | 194 104 | (171 679) |
| Industrial | 11 670 | (34 454) | 12 798 | 25 624 | 24 468 | (8 830) |
| Corporate | (315 816) | (22 805) | (94 665) | (26 917) | (410 481) | (49 722) |
| | (153 644) | (378 763) | 92 166 | (129 383) | (61 478) | (508 146) |
| **Total assets** | | | | | | |
| Office | 1 976 190 | 2 026 031 | 198 612 | 399 111 | 2 174 802 | 2 425 142 |
| Retail | 380 165 | 382 976 | 607 511 | 491 248 | 987 676 | 874 224 |
| Industrial | 230 833 | 237 932 | 772 259 | 621 719 | 1 002 892 | 859 651 |
| Corporate | 38 828 | 328 857 | 3 891 | 2 210 | 42 719 | 331 067 |
| | 2 626 016 | 2 975 796 | 1 582 073 | 1 514 288 | 4 208 089 | 4 490 084 |
| **Total liabilities** | | | | | | |
| Office | 44 366 | 51 080 | 131 634 | 244 847 | 176 000 | 295 927 |
| Retail | (1 851) | 16 728 | 164 516 | 208 612 | 162 665 | 225 340 |
| Industrial | 8 881 | 9 870 | 465 431 | 350 597 | 474 312 | 360 467 |
| Corporate | 1 421 363 | 1 483 949 | 1 009 | 449 | 1 422 372 | 1 484 398 |
| | 1 472 759 | 1 561 627 | 762 590 | 804 505 | 2 235 349 | 2 366 132 |

# NOTES TO THE ABRIDGED SUMMARISED CONSOLIDATED CONDENSED RESULTS

CONTINUED

## 15. HEADLINE EARNINGS PER SHARE

| | Audited 30 June 2020 R'000 | Audited 30 June 2019 R'000 |
|---|---|---|
| Headline earnings attributable to shareholders | | |
| Loss attributable to shareholders | (130 501) | (537 938) |
| Gross revaluation of investment property | 24 443 | 690 671 |
| Gross revaluation of investment property held for sale | 45 608 | – |
| Gross revaluation of investment property recognised in equity accounted joint venture | (22 665) | 11 166 |
| Loss on sale of property held for sale | 1 529 | – |
| Impairment of investment in joint venture | – | 30 418 |
| **Headline earnings attributable to shareholders** | (81 586) | 194 317 |
| **Weighted average number of shares in issue** | 349 395 | 349 395 |
| Total shares issued | 376 067 | 376 067 |
| *Less:* treasury shares | (26 672) | (26 672) |
| **(Loss)/profit per share** | | |
| Basic and diluted loss per share (cents) | (37,35) | (153,96) |
| Headline and diluted headline earnings per share | (23,35) | 55,62 |

## 16. RECLASSIFICATION OF INCOME AND EXPENSES

Following a review of the income and expenses disclosed in the statement of comprehensive income during the current financial year, the following expenses have been reclassified in the current year:

| | Previously reported as at 30 June 2019 R'000 | Reclas-sification R'000 | Restated as at 30 June 2019 R'000 |
|---|---|---|---|
| **Statement of comprehensive income** | | | |
| Property expenses | (191 929) | (1 505) | (193 434) |
| Impairment loss on trade receivables | – | 1505 | 1 505 |

### Impairment loss on trade receivables

Impairment loss on trade receivables of R1,5 million was previously included under property expenses and has now been disclosed separately on the statement of comprehensive income in line with IFRS 9 disclosure requirements.



# SUMMARY OF FINANCIAL PERFORMANCE

| | Audited For the 30 June 2020 | Audited For the 30 June 2019 |
|---|---|---|
| Shares in issue and used for dividend calculation ('000) | 349 395 | 349 395 |
| Weighted average number of shares in issue ('000) | 349 395 | 349 395 |
| Net asset value per share (cents)* | 584,27 | 614,05 |
| Basic and diluted loss per share (cents) | (37,35) | (153,96) |
| Headline and diluted earnings per share (cents) | (23,35) | 55,62 |
| Dividend per share (cents) | – | 71,37 |
| Share price (cents) | 140,00 | 390,00 |
| LTV ratio* (%) | 46,2 | 47,2 |
| **Cost-to-income ratios** | | |
| Gross property cost-to-income ratio (%) | 40,5 | 34,4 |
| Net property cost-to-income ratio (%) | 27,1 | 20,4 |
| Gross total cost-to-income ratio (%) | 47,6 | 39,9 |
| Net total cost-to-income ratio (%) | 35,9 | 28,2 |

* *Calculated in line with BPR and the prior year has been recalculated on the same basis.*

# CORPORATE INFORMATION

## TEXTON PROPERTY FUND LIMITED

Incorporated in the Republic of South Africa
Registration number: 2005/019302/06
A REIT, listed on the JSE Limited
JSE share code: TEX
ISIN: ZAE000190542

## PHYSICAL AND REGISTERED ADDRESS

Block C, Investment Place
10th Road, Hyde Park, 2196
PO Box 653129, Benmore, 2010

## BOARD OF DIRECTORS

M Golding *(non-executive chairman)*
MH Muller*# *(chief executive officer)*
IF Pick*$ *(chief financial officer)*
A Hannington *(independent non-executive)*
JR Macey *(lead independent non-executive)*
S Thomas *(independent non-executive)*
R Franco^ *(non-executive)*
W van der Vent^ *(independent non-executive)*
P Hack*& *(chief financial officer)*

* *Executive director*
\# *Resigned as chief executive officer effective 31 March 2020*
$ *Resigned as chief financial officer on 4 December 2019*
^ *Appointed on 29 November 2019*
& *Appointed as chief financial officer on 12 June 2020*

## COMPANY SECRETARY

Motif Capital Partners
The Link, 1st Floor, 173 Oxford Road
Rosebank, 2196

## AUDITOR

SizweNtsalubaGobodo Grant Thornton Inc.
20 Morris Street East
Woodmead, 2191

## SPONSOR

Investec Bank Limited
100 Grayston Drive
Sandton

## TRANSFER SECRETARY

Computershare Investor Services Proprietary Limited
Rosebank Towers
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Rosebank, 2196
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TEXTON

PROPERTY FUND

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